

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

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In the Matter of: )

REQUEST OF THE )

UNITED STATES POSTAL SERVICE )

FOR A RECOMMENDED DECISION )

ON CHANGES IN RATES OF )

POSTAGE AND FEES FOR )

POSTAL SERVICES )

Docket No. R2005-1

VOLUME #11

Date: September 15, 2005

Place: Washington, D.C.

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## POSTAL RATE COMMISSION

In the Matter of:                    )  
  )  
REQUEST OF THE                        )  
UNITED STATES POSTAL SERVICE)     Docket No. R2005-1  
FOR A RECOMMENDED DECISION        )  
ON CHANGES IN RATES OF            )  
POSTAGE AND FEES FOR                )  
POSTAL SERVICES                    )

Room 200  
Postal Rate Commission  
901 New York Avenue, N.W.  
Washington, D.C.

Volume 11  
Thursday, September 15, 2005

The above-entitled matter came on for hearing  
pursuant to notice, at 9:37 a.m.

## BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN  
HON. TONY A. HAMMOND, VICE CHAIRMAN  
HON. RUTH Y. GOLDWAY, COMMISSIONER  
HON. DANA B. COVINGTON, COMMISSIONER  
HON. DAWN A. TISDALE, COMMISSIONER

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C O N T E N T S

## WITNESSES APPEARING:

JEFFREY W. LEWIS  
 MICHAEL D. BRADLEY  
 JAMES F. KIEFER

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Jeffrey W. Lewis					
by Mr. Koetting	5932	--	6026	--	--
by Mr. Olson	--	5949	--	--	--
by Mr. McLaughlin	--	6016	--	--	--
Michael D. Bradley					
by Mr. Koetting	6029	--	--	--	--
by Mr. Costich	--	6065	--	--	--
by Mr. Olson	--	6099	--	--	--
James F. Kiefer					
by Ms. McKenzie	6141	--	--	--	--
by Mr. Olson	--	6181	--	--	--

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P R O C E E D I N G S

(9:37 a.m.)

CHAIRMAN OMAS: My apologies. Good morning. Today, we'll continue hearings to receive testimony in Docket R2005-1. Today, we will hear rebuttal to the participants' direct testimony. Three witnesses are scheduled to appear today: Jeffrey W. Lewis, Michael D. Bradley, and James F. Kiefer.

Does anyone have a procedural matter to discuss before we begin today?

(No response.)

CHAIRMAN OMAS: Mr. Koetting, would you please identify your first witness so I can swear him in, please?

MR. KOETTING: Thank you, Mr. Chairman. The Postal Service calls to the stand once again Jeffrey Lewis.

CHAIRMAN OMAS: Mr. Lewis, would you stand, please? Raise your right hand.

Whereupon,

JEFFREY WARREN LEWIS

having been duly sworn, was called as a witness and was examined and testified as follows:

CHAIRMAN OMAS: You may be seated.

//

1 (The document referred to was  
2 marked for identification as  
3 Exhibit No. USPS-RT-2.)

4 DIRECT EXAMINATION

5 BY MR. KOETTING:

6 Q Mr. Lewis, could you please state your full  
7 name and title for the record?

8 A My name is Jeffrey Warren Lewis. I am an  
9 operations specialist at the Postal Service. I work  
10 in Delivery Operations.

11 Q Previously, I've handed you a copy of a  
12 document entitled "Rebuttal Testimony of Jeffrey W.  
13 Lewis on behalf of the United States Postal Service,"  
14 which has been designated as USPS-RT-2. Are you  
15 familiar with that document?

16 A Yes.

17 Q Was it prepared by you or under your  
18 supervision?

19 A Yes.

20 Q If you were to testify orally today, would  
21 that be your testimony?

22 A Yes.

23 Q Are there any Category 2 library references  
24 associated with that testimony?

25 A Yes.



1 Q Could you identify that library reference?

2 A It's USPS-LR-K-150.

3 Q And was it your intent to sponsor USPS-LR-K-  
4 150 as part of your testimony in this proceeding?

5 A Yes.

6 MR. KOETTING: With that, Mr. Chairman, the  
7 Postal Service would be handing to the reporter two  
8 copies of the rebuttal testimony of Jeffrey W. Lewis  
9 on behalf of the United States Postal Service,  
10 designated USPS-RT-2 and requests that it be admitted  
11 into evidence along with the accompanying Category 2  
12 library reference, USPS-LR-K-150.

13 CHAIRMAN OMAS: Is there any objection?  
14 Hearing none, I will direct counsel to provide the  
15 reporter with two copies of the corrected direct  
16 testimony of Jeffrey W. Lewis. That testimony is  
17 received into evidence and is to be transcribed into  
18 the record.

19 (The documents referred to,  
20 previously identified as  
21 Exhibit Nos. USPS-RT-2 and  
22 USPS-LR-K-150 were received  
23 in evidence.)

24 //

25 //

USPS-RT-2

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

REBUTTAL TESTIMONY OF  
JEFFERY W. LEWIS  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE

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Category 2 Library Reference: USPS-LR-K-150 – Delivery Unit Survey Materials

**Rebuttal Testimony****Of****Jeffery W. Lewis****Autobiographical Sketch**

My name is Jeffery W. Lewis. I provided testimony before the Postal Rate Commission previously in this docket and in conjunction with the Postal Rate and Fee Changes case, Docket No. R97-1 and the Classification Reform I case, Docket No. MC95-1.

I began working for the Postal Service as a part-time flexible letter carrier in 1974. Presently I serve as an Operations Specialist at USPS Headquarters in Delivery Operations. I have held in this position since 2002. I previously served in the same office and position from 1992 to 1999. As an Operations Specialist, in addition to program management assignments, I coordinate the development of national policies, develop guidelines and procedures, and provide technical support to other Headquarters and field organizations. While working in Delivery, I was a functional lead during the implementation of Delivery Point Sequencing and Delivery Confirmation. I chaired a joint Postal-Industry revision of the USPS Standard governing wall mounted centralized mail receptacles.

Prior to coming to Delivery, I was a program manager for Delivery automation in the Automation Implementation Management Department from

1 1990 to 1992. In that assignment, I provided field support for the letter mail  
2 automation program.

3

4 Before working in Operations, I served in the Special Projects Department  
5 from 1988 to 1990. There, among other assignments, I participated in the Joint  
6 Industry-Postal Worksharing Project. From 1982 to 1988, I held positions in the  
7 Finance Department at Postal Service Headquarters.

8

9 I have also served twice in field assignments as Manager, Operations  
10 Programs Support. I was Manager, Operations Programs Support in the Capital  
11 District from 1999 to 2002. I was Manager, Operations Programs Support in  
12 Chicago District for seven months during 2004 and 2005.

13

14 I received a Master of Business Administration degree from The George  
15 Washington University. I also have a Bachelor of Science degree in Public  
16 Administration from George Mason University.

17

1     **1.     Purpose and Scope of Testimony**

2

3           In section IV, pages 26 to 56, of his testimony (VP-T-2) concerning  
4     standard enhanced carrier route mail, Dr. John Haldi discusses the city carrier  
5     costs of handling sequenced mail. At page 28 in footnote 29, Dr. Haldi suggests  
6     that 60 percent of the Postal delivery network is restricted from using the  
7     lowest-cost workmethod for handling sequenced full-coverage mailings, taking  
8     that mail directly to the street as an additional bundle. Later, in Sections IV B  
9     and C (pages 32 -45), Dr. Haldi discusses how this restriction constrains postal  
10    managers' priorities for identifying the mail that carriers will handle as an  
11    additional bundle.

12

13           The purpose of my testimony is to respond to the testimony of Dr. John  
14    Haldi. I will provide an explanation of the workmethod preference for handling  
15    letter-shaped sequenced full-coverage mail pieces and testimony and evidence  
16    regarding the extent of the constraint on the number of additional bundles City  
17    carriers can take directly to the street without prior in-office handling.

18

19    In association with my testimony, I am also sponsoring Library Reference K-150,  
20    a field survey of delivery unit receipts of full coverage mailings and an analysis of  
21    additional-bundle mail handling opportunities.

1   **2.     Handling of Letter-Shaped Sequenced Full-Coverage Mailings**

2  
3           Most delivery units have delivery territories affected by the three-bundle  
4   restriction. In handling sequenced full-coverage mailings, delivery managers  
5   seek to minimize the amount of mail that carriers must handle in the office prior  
6   to taking it to the street for delivery. In addition to implementing processes to  
7   DPS letters from saturation full-coverage mailings, managers will defer, within  
8   service commitment windows, delivery of mailings to avoid in-office handling of  
9   sequenced full-coverage mailings. When, in spite of using these mail  
10   management processes, a delivery unit has more than one sequenced  
11   full-coverage mailing that carriers must deliver on the same day, the manager  
12   must decide which mailing to take directly to the street and which to either case  
13   or collate.

14  
15           As Dr. Haldi notes at page 33 lines 7 to 11, when given the choice  
16   between taking a flat or a letter-shaped mailing directly to the street, delivery  
17   managers will most often take a flat shaped mailing, primarily for two reasons.  
18   The first reason managers will choose to handle the letter-shaped pieces in the  
19   office is, as Dr. Haldi says in his testimony at page 32 lines 14 and 14, casing  
20   letter-shaped mail pieces is more efficient than casing a flat shaped mailing. If  
21   given a choice between handling a letter-shaped mailing in the office or handling  
22   a flat-shaped mailing in the office, most delivery managers will prefer to case a  
23   sequenced letter-shaped mailing into an empty case rather than case or even

1 collate a flat mailing.

2

3       The second reason is drawn from our experience with handling bundles  
4 on the street. At the inception of DPS processing, the NALC and USPS  
5 approved two workmethods for handling DPS letters, the composite bundle  
6 method and the Vertical Flats workmethod. When using the composite bundle  
7 workmethod, carriers case non-DPS letters separate from flats and work from  
8 two letter-shaped bundles of mail (the DPS letters and the cased letters) on the  
9 street. When using the Vertical Flats workmethod, carriers case and carry  
10 non-DPS letters together with their flats and work from only one letter-shaped  
11 bundle on the street. In the years between DPS implementation in 1993 and  
12 2000, both the NALC and delivery managers found that the composite bundle  
13 method, where carriers worked from two letter-shaped bundles of mail, was  
14 ergonomically difficult when carriers walked between delivery points. Working  
15 from two letter-shaped bundles requires carriers either to use a finger to separate  
16 the two bundles or to place the bundles back to back so that the addresses are  
17 visible on either side of the bundle and then twist their wrist to read the  
18 addresses when fingering the mail. In contrast, when working from two flat-  
19 shaped bundles (the VFC bundle of cased mail and the bundle of flat-shaped  
20 pieces from a full coverage mailing), carriers either put one bundle behind the  
21 other in the satchel or carry one in the satchel and the other in the crook of their  
22 arm. Carriers find that both methods for handling flat bundles are comfortable  
23 and, because of the shape of a flat, each method protects the integrity of the flat



1 bundles.

2

3 Thus, when a delivery unit has more than one sequenced full-coverage  
4 mailing that carriers must deliver on the same day, the manager must decide  
5 which mailing to take directly to the street and which to either case or collate. If  
6 one of the mailings is letter-shaped, the manager is more likely to decide, for  
7 both efficiency and ergonomic reasons, to handle the letter-shaped mailing in the  
8 office.

9

### 10 **3. The Third-bundle Constraint**

11

12 There are two dimensions to the third-bundle constraint. The first is the  
13 number of delivery points that are of the type where management cannot require  
14 carriers to work from more than three bundles when making delivery. The  
15 second dimension is the number of times when, to meet service commitments, a  
16 carrier must deliver more than one sequenced, full-coverage mailing on the same  
17 day. Only where these two operational conditions overlap does the three-bundle  
18 workrule cause a City carrier to case a sequenced full coverage mailing.

19

### 20 **4. Type of Delivery**

21

22 As described in my prior testimony (USPS-T-30) in this docket, the City  
23 carrier workrule that restricts managers from requiring carriers to work from more

than three bundles of mail does not apply when City carriers are serving curblines, cluster boxes, centralized, or dismount deliveries.

The Address Management System (AMS) provides a count of curblines, cluster boxes, and centralized delivery points. It includes all delivery types that are not curblines, cluster boxes, or centralized in an 'Other' category. The AMS does not provide a separate count of dismount deliveries. The 'Other' category includes both dismount deliveries, which are not subject to the three-bundle limitation, and deliveries that are subject to the three-bundle restriction.

The table below of data from the Address Management System shows City deliveries classified by the type of delivery. The table shows that only 44.3 percent of city deliveries are other than curblines, cluster boxes, or centralized. Therefore, the actual number of deliveries affected by the three-bundle restriction is something less than 44.3 percent because the 'Other' category includes a type of delivery, dismount, that is not constrained.

Possible Deliveries by Type of Delivery

	2002	%	2003	%	2004	%	2005	%
Curblines	19,217,974	22.8	19,448,992	23.0	19,652,058	23.1	19,806,178	23.1
Cluster Box	9,133,797	10.8	9,425,431	11.1	9,682,836	11.4	9,917,759	11.6
Centralized	17,425,332	20.7	17,672,036	20.9	17,843,557	20.9	17,995,141	21.0
Other	38,434,434	45.6	38,196,763	45.1	38,028,351	44.6	37,920,269	44.3

1     **5. Multiple Sequenced Full-Coverage Mailings**  
2

3           After my oral testimony, I decided to conduct a field survey of the receipt  
4 of full coverage mailings to better understand the operational opportunities  
5 presented by mailer-sequenced full-coverage mailings, and develop guidelines  
6 for more efficient operational procedures. Materials related to this effort are  
7 available as a Library Reference, USPS-LR-K-150 – Delivery Unit Survey  
8 Materials, filed in association with my testimony.  
9

10          On July 29th, I asked the Areas to have each District identify one delivery  
11 unit to keep a log of every full coverage mailing that arrived in the delivery unit  
12 outside of the DPS mailstream. The delivery units were to identify the date that  
13 the mailing arrived at the unit and the requested or committed delivery date for  
14 the mailing. I asked that the data-collection continue through August 25th in  
15 order to complete the data-collection and analysis within the timeframe allowed  
16 for rebuttal testimony.  
17

18          From a service commitment perspective, delivery units generally have a  
19 two-day window to deliver mailings after the mailings arrive at the delivery unit.  
20 In analyzing whether service commitments required the delivery unit to deliver  
21 more than one full-coverage mailing on the same day, I identified the delivery  
22 window for each mailing. To replicate the process used by delivery managers in  
23 handling full coverage mailings, I then used the delivery window and  
24 mailer-requested delivery dates to develop a delivery scenario that attempted to

1     avoid delivering more than one full-coverage mailing per day and to minimize the  
2     number of full-coverage mailings that delivery units had to deliver on any given  
3     day.

4  
5             Seventy-eight delivery offices participated in the survey of full-coverage  
6     mailings. While not every office initiated data-collection on the same day or  
7     completed the requested three-weeks of data collection, the survey provides  
8     1,328 days of data about the units' receipt of full-coverage mailings. During the  
9     data-collection period, the participating delivery units received 791 full-coverage  
10    mailings; 180 were letter-shaped, 381 were flat-shaped, and 230 included both a  
11    letter-shaped piece and a flat-shaped piece.

12  
13            My analysis showed that of those 791 mailings, 337 either had more than  
14    one piece (230), or had service commitment dates that required delivery units to  
15    deliver them on the same day as another sequenced full-coverage mailing (107).  
16    On 23 percent of the 1,328 survey days, delivery units had to deliver more than  
17    one sequenced full-coverage mailing.

## 19    **6.     Extent of Third Bundle Constraint**

20

21            In summary, an analysis of AMS possible delivery data shows that the  
22    three-bundle restriction applies to something less than 44.3 percent of delivery  
23    points. The field survey of the receipt of sequenced full-coverage mailings

1 suggests that service commitments require delivery units to deliver more than  
2 one sequenced full-coverage mailing on only about 23 percent of delivery days.  
3 Thus, systemwide, the Postal delivery network appears to experience a  
4 constraint in its ability to handle sequenced full-coverage mailings as additional  
5 bundles only about 10 percent of the time (44.3 percent of delivery points times  
6 23 percent of days).

7

Valpak XE-1 (Lewis rebuttal)

**Possible Combinations of Saturation Mailings**

	Letters	Addressed Flats	Unaddressed Flats + DALs
Letters	<b>A</b>	<b>B</b>	<b>C</b>
Addressed Flats	<b>D</b>	<b>E</b>	<b>F</b>
Unaddressed Flats + DALs	<b>G</b>	<b>H</b>	<b>I</b>

Valpak XE-2 (Lewis rebuttal)

**Possible Combinations of Saturation Mailings**  
(extra bundles)

	Letters	Addressed Flats	Unaddressed Flats + DALs
Letters	<b>A</b> <b>(2)</b>	<b>B</b> <b>(2)</b>	<b>C</b> <b>(3)</b>
Addressed Flats	<b>D</b> <b>(2)</b>	<b>E</b> <b>(2)</b>	<b>F</b> <b>(3)</b>
Unaddressed Flats + DALs	<b>G</b> <b>(3)</b>	<b>H</b> <b>(3)</b>	<b>I</b> <b>(4)</b>

Valpak XE-3 (Lewis rebuttal)

**Possible Combinations of Saturation Mailings**  
(extra bundles)

Number	Dist.		Letters	Addressed Flats	Unaddressed Flats + DALs
180	22.8%	Letters	<b>A</b> (2)	<b>B</b> (2)	<b>C</b> (3)
381	48.2%	Addressed Flats	<b>D</b> (2)	<b>E</b> (2)	<b>F</b> (3)
230	29.1%	Unaddressed Flats + DALs	<b>G</b> (3)	<b>H</b> (3)	<b>I</b> (4)
-----	-----				
791	100.0%				



1 CHAIRMAN OMAS: This now brings us to oral  
2 cross-examination. One participant has requested oral  
3 cross-examination, Val-Pak Directing Marketing  
4 Systems, Inc., and Val-Pak Dealers Association, Inc.

5 Is there any other participant who wishes to  
6 cross-examine Witness Lewis?

7 MR. McLAUGHLIN: Mr. Chairman, Tom  
8 McLaughlin for Advo. We do have what I expect to be  
9 fairly brief cross-examination concerning the library  
10 reference.

11 CHAIRMAN OMAS: Mr. Olson, you may begin.

12 MR. OLSON: Thank you, Mr. Chairman.

13 CROSS-EXAMINATION

14 BY MR. OLSON:

15 Q Welcome back, Mr. Lewis. Let's jump in, and  
16 if you would take your testimony, open it to page 3,  
17 and look at line 18, you, in the middle of that line,  
18 start a sentence and say, "In contrast, when working  
19 from two flat-shaped bundles, the VFC bundle of cased  
20 mail and the bundle of flat-shaped pieces from a full-  
21 coverage mailing, carriers either put one bundle  
22 behind the other in the satchel or carry one in the  
23 satchel and the other in the crook of the arm."  
24 Correct?

25 A Yes, sir.

1           Q     Okay.  If the bundle of flat-shaped pieces  
2     that you're referring to, the full-coverage mailing  
3     you're referring to, is unaddressed wraps that our  
4     accompanied by DALs, are the DALs always cased?

5           A     As we talked before when I was testifying,  
6     as things stand right now, the vast majority of those  
7     detached address label pieces are not run on  
8     automation, which means they are either taken as an  
9     additional bundle on routes where they have the  
10    opportunity to take them as an additional bundle, or  
11    if a carrier is delivering in a territory where they  
12    are walking between delivery points, yeah, that mail  
13    ends up being cased.  So it would be in their letter  
14    bundle.

15          Q     In the VFC bundle?  Not the DPS bundle, I  
16    take it.

17          A     Correct, correct.  It would be in the VFC  
18    bundle, yes.

19          Q     In the cases where a carrier, and I assume  
20    we're talking about walking between delivery points --  
21    what type of routes are you talking about?

22          A     Again, going back to our discussion, any  
23    kind of a route.  The category of a route just talks  
24    about what we --

25          Q     Let me rephrase the question.  I understand.

1           A     -- directly do as the predominant kind of  
2     delivery. Any kind of a route is likely to have  
3     walking sections on it. This would be where I'm  
4     walking in between mail boxes, like in a residential  
5     neighborhood that doesn't have curb line or doesn't  
6     have CVUs.

7           Q     Or centralized.

8           A     Right.

9           Q     Talking about walking portions of routes.  
10    You said, in the vast majority, they are cased. If  
11    they weren't cased, if the DALs were not cased, how  
12    would the carrier handle the two bundles of flats and  
13    the bundle of DPS letters and the bundle of DALs?

14          A     If I was delivering in a section with  
15    cluster boxes or centralized --

16          Q     No. We're talking about walking.

17          A     Where I'm walking in between?

18          Q     Yes.

19          A     That mail is probably cased in today's  
20    environment.

21          Q     You said before, overwhelmingly or something  
22    like that would be cased, probably cased. If it  
23    weren't cased, how would the carrier handle it?

24          A     The only other option would probably be it's  
25    being run on automation.

1           Q     So there is never a situation where a  
2     carrier on a walking component of a route takes the  
3     DALs out as another bundle. Is that what you're  
4     saying?

5           A     The Postal Service is a big company, and  
6     it's difficult to say never with anything. Our  
7     direction from headquarters is that, no, those should  
8     not be taken out as the additional bundle and someone  
9     case the flats or collate the flats. I think the  
10    productivity for doing that would be going in the  
11    wrong direction. In some places, we do run those on  
12    automation, but --

13          Q     But that's really not my question, Mr.  
14    Lewis.

15          A     Okay.

16          Q     You don't want to say it's never. You said  
17    that the pieces are never brought out separately as a  
18    DAL bundle, and I'm saying, for those words, not  
19    never, maybe a small number, but if you don't say  
20    never, there are some where they take the DALs out as  
21    a separate bundle. I'm asking you to tell me how a  
22    carrier on the street works two bundles of flats, a  
23    bundle of DPS letters, and a bundle of DALs.

24          A     My hesitancy to say never is I was a  
25    carrier. When I had something to do and didn't want

1 to work overtime or something like that, I maybe did  
2 things that I wasn't required to do. If you say, is  
3 there a policy thing I could describe, the policy  
4 thing I would describe is that this mail would be  
5 cased, but there are probably instances where carriers  
6 would, at their discretion, handle this in a way that  
7 didn't require it being cased.

8 Q Good. And in those cases, how would they  
9 work the mail on the street? Explain it, please. Two  
10 bundles of flats, a bundle of DPS letters, and a  
11 bundle of DALs.

12 A When we first did -- as I describe earlier  
13 in this paragraph, when we first implemented delivery-  
14 point sequencing, we had two --

15 MR. OLSON: Mr. Chairman. I'm sorry. I'm  
16 going to have to interrupt and ask if you can help me  
17 because I've asked the same question several times,  
18 and I can't get to the answer. I need to know, when  
19 the carrier takes the DAL bundle out as another  
20 bundle, has two bundles of flats, a bundle of DPS  
21 letters, and a bundle of DALs, how does he work it on  
22 the walking portion of a route? That's the question.

23 MR. KOETTING: I believe that's the question  
24 the witness is attempting to answer.

25 MR. OLSON: Well, we started getting into

1 other extraneous issues about old methods before  
2 DPS'ing, and I'm just trying to focus on today.

3 THE WITNESS: Actually, what I was talking  
4 about was work methods that people used since we've  
5 started DPS'ing. I describe here a composite bundle  
6 work method. That's the way they would do it.

7 BY MR. OLSON:

8 Q Can you explain to me how that works on the  
9 street when a carrier has the two bundles of flats,  
10 the bundle of DPS letters, and a bundle of DALs?

11 A What's different is I would have two bundles  
12 of letters in my hands, and that's what's described  
13 here with either using a finger in between the two  
14 bundles of letter-shaped pieces or putting two letter-  
15 shaped bundles back to back and reading addresses off  
16 of them by turning my wrist.

17 Q So your twist-the-wrist description  
18 describes what would happen in that case.

19 A Right. In addition to having two letter  
20 bundles, I would have two flat bundles, too. That's  
21 where you get to four bundles that caused the  
22 grievance.

23 Q I'm not sure anywhere in your testimony --  
24 correct me if I'm wrong -- you actually use the words  
25 "detached address label" or "DAL," do you?

1           A     I'm not sure if I do or not.

2           Q     Would you take a look with me at the data  
3 collection form that you sent out to the field which  
4 is in your Library Reference K-150 and tell me, is  
5 this the form that you asked people to fill in on the  
6 last page? The top is called "Survey Data Collection  
7 Form."

8           A     It is.

9           Q     And then below that, it says "Full Coverage  
10 Mailing Tracking Log."

11          A     Correct.

12          Q     And you have boxes for the date the mailing  
13 arrived at the unit, the mailer, letter, flat, and  
14 committed a requested in-home date. Correct?

15          A     Yes.

16          Q     If a flat was an unaddressed flat with a  
17 DAL, where would the fact that they had DALs be  
18 recorded here?

19          A     It would be listed as a mailing that had a  
20 letter and a flat-shaped piece. There might be a  
21 singular mailing, two pieces.

22          Q     Do you deal with that in your instructions  
23 to the field? Do you tell them, whenever there is a  
24 mailing with a DAL, put an X in each box?

25          A     There is nothing explicitly in the

1 instructions, no.

2 Q Do you think it's possible that people could  
3 think that the word "letter" meant a saturation letter  
4 mailing and not a flat accompanied by a DAL?

5 A As we discussed when I was here before, an  
6 operations manager doesn't look at detached-address-  
7 label mailing the same way as someone who works in  
8 mail classification might. As an operations manager,  
9 I see a bundle of letters and a bundle of flats. As I  
10 said in the instruction, after I field tested this  
11 data collection form with people that I know in the  
12 field, it was clear to me that field managers would be  
13 able to tell what we were looking for, and the field  
14 manager would understand the mission. That's what  
15 that little sentence was about.

16 Q So your testimony is you believe there was  
17 no confusion in the field and that in all instances  
18 where an unaddressed flat was accompanied by a DAL,  
19 there was an X in each box.

20 A That's some of what I did when the  
21 information came in, and when I saw a mailer name that  
22 I recognized, either from other mailings that came in  
23 or one that I recognized from my experience working in  
24 delivery units, that I thought probably had more than  
25 one piece, I called and confirmed, and there were



1 instances where I put the letter-shaped piece in.

2 Q So, in other words, modifying the result  
3 that you originally got from the field to check the  
4 letter box because the field had not done it.

5 A I wouldn't say modifying. I would say  
6 making sure of the quality of the data that I got  
7 back.

8 Q Correcting it, based on your phone call.  
9 That's what you're saying, isn't it?

10 A Yes.

11 Q Okay. Take a look at how you use these  
12 numbers and help me. On page 7 of your testimony,  
13 lines 10 and 11, you refer to 230 mailings which  
14 included both a letter-shaped piece and a flat-shaped  
15 piece. So I take it, that's where either the field  
16 checked both boxes for a mailing, or you called the  
17 field and then added the extra X in the box. Correct?

18 A Correct.

19 Q Okay. So these 230 mailings were all  
20 unaddressed flats with DALs.

21 A They were mailings that had a letter and a  
22 flat component. I would say, based on my experience,  
23 they were an unaddressed flat and a letter-shaped  
24 piece with an address. I didn't see every one of  
25 these pieces. I couldn't testify to that.

1           Q     No. I know you didn't see every one, but  
2     can you tell me, at least theoretically, how a mailing  
3     could have a letter and a flat component other than  
4     where it was an unaddressed flat with a DAL?

5           A     No. That's what my expectation would be  
6     that these pieces were.

7           Q     Okay.

8           A     They could both have been addressed. I  
9     don't know.

10          Q     Does the Postal Service accept addressed  
11     flats with DALs?

12          A     I'm not a classification guy. I deliver the  
13     stuff.

14          Q     Have you ever seen a mailing of addressed  
15     flats accompanied by DALs, as an operations expert?

16          A     I can't recall that I ever have. I don't  
17     know that I ever actually went and looked for them; I  
18     just deliver it.

19          Q     But when you deliver it, it could be a  
20     little confusing if there is an address on a flat and  
21     an address on a DAL, would it not? Which would you --

22          A     I would look at both of them.

23          Q     You would look at both of them?

24          A     Right.

25          Q     On page 7, line 13, you say that there were

1 337 mailings that had more than one piece, 230, or had  
2 service commitments that required delivery units to  
3 deliver them on the same day as another sequenced,  
4 full-coverage mailing, 107. Correct?

5 A Yes.

6 Q Okay. Now, in the case of the 230 that had  
7 more than one piece, those, again, we're referring to  
8 unaddressed flats with DALs. Correct?

9 A My guess is that's what most of those are,  
10 yes.

11 Q Your guess is that's all of what they are  
12 unless something strange happened. Right? Wouldn't  
13 that be a fair statement?

14 A Okay. I'm just trying to not to say  
15 something I don't know something about. Okay? My  
16 experience would be that that's what they were. I  
17 don't look at all of these pieces.

18 Q Okay. So your Library Reference K-150 had a  
19 section -- the pages aren't numbered, but I think it's  
20 the third page that has the definition of what you  
21 call a "conflict." Do you recall that?

22 A Yeah.

23 Q We can turn to that, if you want. I guess  
24 it's the fourth page under the section, "Summary  
25 File." Do you see that?

1           A     Yes.

2           Q     You say, "I call a situation where a unit  
3     has to deliver more than one full-coverage mailing on  
4     the same day a 'conflict.'"   Correct?

5           A     Yes.

6           Q     And when you say "mailing," it just throws  
7     me a bit because I think of an unaddressed wrap with a  
8     DAL as being a mailing.   You're not using "mailing" in  
9     that way, are you?

10          A     If a customer gave me a mailing that had two  
11     pieces that were both full coverage and had to be  
12     delivered at the same time, that's what I'm trying to  
13     describe.   The way that this mailing was made up, I  
14     had two things that are bundles.

15          Q     Right.   Two things but not two mailings.  
16     You say one mailing and two things.   I'm just trying  
17     to clarify something.   Would it have been more  
18     accurate perhaps to have said, "I call a situation  
19     where a unit has to deliver more than one full  
20     coverage 'piece' instead of 'mailing,' whether it be  
21     an entire mailing like a letter or a two-piece mailing  
22     like a DAL with an unaddressed wrap"?

23          A     Your suggestion of the wording is --

24          Q     -- changing the word "mailing" to "piece."

25          A     Yeah.   That would work.

1 Q Okay.

2 CHAIRMAN OMAS: Excuse me, Mr. Lewis. Would  
3 you bring your mike down just a little bit and  
4 slightly closer? Thank you very much.

5 THE WITNESS: Sure.

6 BY MR. OLSON:

7 Q Well, I'm going to ask you some questions  
8 and adopt your terminology to make this easy. I'm  
9 going to refer to a conflict as being two full-  
10 coverage pieces that need to be delivered on the same  
11 day. Is that okay?

12 A That's the way that an operations manager  
13 would look at this.

14 Q And that's the way you used the term.

15 A Correct.

16 MR. OLSON: Okay. Let's just stick with  
17 that. I want to explore with you how carriers  
18 actually handle mail in some of these conflict  
19 situations that we're discussing, and to facilitate my  
20 questions and to help make sure we're talking about  
21 the same conflict situations, I've got a cross-  
22 examination exhibit. It has three pages that I'm  
23 going to give you all at once, but we're only going to  
24 begin with page 1. If I may give this to the witness.

25 THE WITNESS: Thank you.

1 (Pause.)

2 BY MR. OLSON:

3 Q If we can just go back to page 1 and focus  
4 on that, Mr. Lewis, -- do you have that in front of  
5 you? -- you see that there are three rows, and the  
6 rows are labeled "letters," "addressed flats," and  
7 "unaddressed flats plus DALs," and as you can see, the  
8 exhibit also has three columns with the same headings,  
9 and for ease of reference, we have put a letter in  
10 each of the cells in this table, A through I, and  
11 really the only purpose of this table is to make sure  
12 we identify all possible combinations of conflicts  
13 that could exist with respect to two full-coverage  
14 mailings. Do you understand the table?

15 A I think so.

16 Q Can you think of any possible combinations  
17 of saturation mailings creating conflicts other than  
18 the ones that are shown here?

19 A These letters are a DPS bundle and then  
20 addressed flats bundle that are cased and a mailing  
21 that's got DALs.

22 Q No, sir. This is not into how the pieces  
23 have been processed; this is simply a description of  
24 the mailing. They are all saturation mailings. They  
25 are either saturation letters, they are saturation

1       what you studied?

2           A       I would have to think about how you set this  
3       model up. I understood the model that I set up, but I  
4       don't have an explanation for the model that you've  
5       got set up here, but we can go ahead with this. I'm  
6       just trying to understand what you want me to look at  
7       here.

8           Q       Well, I haven't asked you any questions yet,  
9       but I want you to take some time with this, I guess,  
10      to orient yourself. I asked you a minute ago if you  
11      would agree with me, there are three kinds of  
12      saturation mailings --

13          A       Okay.

14          Q       -- that are entered at the Postal Service.  
15      Now, that, by definition, excludes DPS bundles and VFC  
16      bundles. Correct?

17          A       More what I was wondering is if you're  
18      asking are there other things that could happen? I  
19      could have more than one letter bundle introduced at a  
20      time, and I don't see a column for more than one  
21      letter, --

22          Q       We'll get to that.

23          A       -- more than one flat.

24          Q       We'll get to that.

25          A       I'm not sure how you're setting up, how this

1 model is structured, and you're asking me do I  
2 understand it, and, no, I don't.

3 Q Okay. Without worrying too much about how  
4 I'm going to use it, --

5 A I worry. (Laughter.)

6 Q You're well-coached by counsel. But without  
7 worrying about what questions I'm going to ask, I'm  
8 going to go back and just ask again, do you understand  
9 what we're trying to do? We're trying to show the  
10 conflicts that can occur when there is more than one  
11 saturation mailing on a given day, and it strikes me  
12 that there are three kinds of saturation mailings.  
13 These are they: the columns, the rows, the  
14 intersects. They are A through I, and this is  
15 everything that could create a conflict, the way you  
16 describe it.

17 A That's pretty much what I described, too, in  
18 my study. Right?

19 Q I believe it's totally consistent. It just  
20 has some letters in it so I can ask you some questions  
21 about the letters. Thanks.

22 Now, let's -- I saw you were looking ahead a  
23 moment ago -- now we'll get there, to page 2. That's  
24 the way to do it, by the way. I would like to have  
25 you turn to that Cross-examination Exhibit 2, and



1     that's a table that is similar to the first table  
2     except it has three rows of numbers below the letters  
3     in the table, and what those numbers purport to show  
4     is the number of extra bundles that each combination  
5     of full-coverage mailings causes carriers to deal with  
6     in some manner. Let's go over a couple of these and  
7     just make sure it makes sense.

8                 Look at A. If you have two saturation  
9     mailings of letters, -- that's Combination A in the  
10    chart in the upper-left-hand corner -- you would have  
11    two extra bundles, both letters. Correct? And do you  
12    see the number two?

13                A     I guess my difficulty with this is I'm not  
14    sure that this model describes what we do in the  
15    workplace. If you're looking at this, and you have  
16    this matrix, yeah, you're correct. I'm still having a  
17    hard time understanding how this relates to what we do  
18    on a delivery and what a carrier does, but, yeah, if  
19    you have two letter mailings, A would be two.

20                Q     Okay. That's what I wanted. Thank you.  
21    And take a look, for example, in the middle of the  
22    chart. You have two bundles of addressed flats; and,  
23    therefore, there is a number two there. Do you see  
24    that?

25                A     Yes.

1 Q Does that make sense?

2 A Yes.

3 Q And if you look at Combinations C and G,  
4 which are really the same because they are both  
5 letters and unaddressed flats plus a DAL -- do you see  
6 how that works? --

7 A I'm not sure that I would agree with that.

8 Q What would you disagree with?

9 A If I have an unaddressed --

10 Q Oh, I'm sorry. Let me do that one more  
11 time. I think I see your problem. I apologize. Let  
12 me relook at this with you.

13 A Okay.

14 Q C and G. C and G, you would have three  
15 extra bundles: one of saturation letters, one of  
16 DALs, and one of unaddressed flats. Correct?

17 A Yes.

18 Q So the number three is accurate there. Yes?

19 A Yes.

20 Q Thank you. And in the bottom-right-hand  
21 corner, that's the only instance where you have four  
22 bundles, and that is premised on two saturation  
23 mailings of unaddressed flats with DALs, so the four  
24 would be correct there, two sets of wraps, two sets of  
25 DALs.

1           A     In this model, yes.

2           Q     That's all I'm asking about. Okay.

3           A     Again, I'm having a little difficulty  
4 relating this to what I do.

5           Q     Sure. Take a look at the next page, please,  
6 at Cross-examination Exhibit 3. This table is just  
7 like two except we've added two columns to the left of  
8 each row in the table, and the first column shows the  
9 number of each type of mailing in your survey from  
10 your results. You see the 180, the 381, and the 230.  
11 Now, those are your numbers. Correct? Do you want to  
12 look them up and confirm that?

13          A     I'm not sure how they relate to the numbers  
14 over on your matrix, but, yes, those are my numbers.

15          Q     Okay. Well, it's 180 --

16          A     -- and the 381 and the 230 are my numbers.

17          Q     And 180 is the number of letter mailings.  
18 Right?

19          A     I'll take your word for it.

20          Q     It's on page 7, line 10. You said there  
21 were 791 full-coverage mailings -- do you see line 10?  
22 -- line 9, actually -- 791 full-coverage mailings, 180  
23 letter shaped, 381 flat shaped, 230 both a letter-  
24 shaped and a flat-shaped piece. Correct?

25          A     Yes.

1 Q Okay. So the numbers in the first column  
2 correspond with your study.

3 A Correct.

4 Q And then all we did is do a distribution of  
5 those as to what percentage each were of the total:  
6 22.8 percent were letters, et cetera. Do you see  
7 those numbers?

8 A Yes, I see them.

9 Q I'll just ask you to accept that.

10 A I trust your math.

11 Q I don't think you have those numbers in your  
12 -- I don't remember, but if you could just accept the  
13 math for a second.

14 A Sure. They match my numbers.

15 Q Good. You have the percentages?

16 A Yes, in the library reference.

17 Q Now, let's go back to the survey, and on  
18 page 7, line 15, the same page we're on here, you say  
19 you found that since the conflicts involved -- let me  
20 see if this is a fair statement. Since these 107  
21 conflicts, we're talking about -- the 107 number -- do  
22 you recall that number?

23 A 107 of the conflicts that I found did not  
24 involve mailings that had two pieces.

25 Q They were service-connection conflicts.

1           A     Yeah, more of the service window that I had  
2     to deliver more than one piece of whatever shape or  
3     one mailing of whatever shape.

4           Q     So those 107 conflicts due to service  
5     commitments involve two full-coverage mailings that  
6     had to be delivered on the same day, and would it be  
7     fair to infer that each conflict involved two  
8     mailings, in other words, that if there were 107  
9     conflicts, that there were 214 mailings?

10          A     I would have to go back and look at the  
11     data. It may be that it's not exactly that.

12          Q     Do you mean there might be 210 or 216, but  
13     it's around 214?

14          A     If I have a day that I had three mailings  
15     that had to be delivered at the same time, one of  
16     them, I would have counted as not being a conflict,  
17     and two of them, I would have counted as a conflict.  
18     I'm not sure that there was a one-to-one relationship  
19     there. I think, if you look at the information in the  
20     table, it will show that there is not a one-for-one  
21     relationship; it's more how many of these mailings  
22     ended up not being able to be handled as an additional  
23     bundle, and if I had a date that I had three, then  
24     there wouldn't be a one-to-one relationship.

25          Q     Okay. But what I'm trying to get at is when

1     you say there were 107 conflicts due to service  
2     commitments, each of those conflicts had to involve at  
3     least two mailings. Correct?

4           A     Some of them were more than two.

5           Q     And some more. So it's at least 214  
6     mailings that were actually involved in those  
7     conflicts.

8           A     That would be accurate.

9           Q     And of the 180 letter-shaped, saturation  
10    mailings in your survey, do you know how many of those  
11    were involved in these conflicts?

12          A     Actually, I was thinking about this the  
13    other day, and I anticipated that you would ask that  
14    question. I did not go into that. The data is there  
15    to go into that. More, I was just trying to describe  
16    the instances that we had conflicts that I found in  
17    the data. You could go farther into the data and come  
18    up with how many of these were letter and how many  
19    were flat. I did not do that.

20          Q     You didn't tabulate the number of times that  
21    letters were involved in the conflicts or flats were  
22    involved in the conflicts.

23          A     By the time I looked at it and thought, gee,  
24    that would be a neat thing to look at, I was up to  
25    here in Katrina stuff, and I didn't get time to do it,

1 no.

2 Q Well, you get a pass, then. In the event  
3 that -- let me ask you this. Go back to my Exhibit 3,  
4 and we're dealing with A through I again, those boxes.  
5 Those are just labels for the boxes. In terms of the  
6 combinations shown on that Exhibit 3, letters A  
7 through I, from your survey data, did you go ahead and  
8 tabulate the number of conflicts that fell into each  
9 cell? I take it, you didn't do that. Correct?

10 A No. What I was trying to address was my  
11 testimony and --

12 Q I understand.

13 A The question was, how many times do we have  
14 these kinds of conflicts, --

15 Q Right.

16 A -- and I didn't get into this level of  
17 analysis. My impression after reading Mr. Haldi's  
18 testimony was that there were fewer conflicts than  
19 what he was presenting, but I didn't have evidence. I  
20 just had my experience, and that's what I was trying  
21 to describe.

22 Q A very complete answer. Thank you.

23 Let me ask you to turn with me to the issue  
24 of third bundles and the limits on those third  
25 bundles. I know that we have to analyze routes, that

1 we have to analyze portions of routes, as you  
2 instructed me when you were here before, and I  
3 appreciate that. In terms of these different  
4 combinations of saturation mailings that are on this  
5 Exhibit 3, let's discuss how they would be handled by  
6 carriers on routes that are contractually limited to  
7 three bundles.

8 A Okay.

9 Q We're assuming that there is a conflict  
10 situation here. Let's say, A, with two letter  
11 mailings, or B, with a letter mailing and addressed  
12 flat mailing, or D, which is the same thing. Let's  
13 take those three situations: two letter mailings for  
14 a letter mailing and an addressed flat mailing. Would  
15 one of the mailings be cased, or would the carriers  
16 collate the two mailings?

17 A If it was a letter mailing, I would hope  
18 that it would be back flowed, and that would come to  
19 the carrier in DPS, and I wouldn't have a conflict.

20 Q So the way it would work is if there were  
21 two letter mailings, the optimum solution is to DPS  
22 both letter mailings. Is that what you're saying?

23 A That's what we've instructed people to do.  
24 If I have mail that's automation compatible, it should  
25 be being back flowed, or it should be caught at the



1 plant, and it should come to the carriers in DPS.

2 Q Not one of the two letter mailings but both  
3 of the two letter mailings.

4 A If I was a plant manager, I didn't know how  
5 many. I would just look at, is this mail compatible  
6 with automation, and if it is, then I put it onto the  
7 machines.

8 Q You see, my scenario is for the routes that  
9 are contractually limited to three bundles, and I'm  
10 positing a situation where you have two saturation  
11 mailings of saturation letters, and you've got two  
12 pieces there, and I'm asking you how you would handle  
13 it as to the two mailings, and I'm asking you if you  
14 would send back to the plant one of the two mailings  
15 or both of the two letter mailings.

16 A They would both go.

17 Q Okay. Now, are --

18 A If I had the service window to send them  
19 back.

20 Q And if you didn't have the service window to  
21 send it back?

22 A If it was mail that I had to handle in the  
23 office, on routes where I was not constrained or on  
24 sections of routes where I wasn't constrained --

25 Q We're talking about contractually limited to

1 no more than three bundles.

2 A In those instances, I would have to case  
3 one, at least one.

4 Q And perhaps two if there was a flat mailing  
5 there also, but we're not -- that.

6 Now, would carriers ever collate one mailing  
7 of letters with another mailing of saturation letters?

8 A They would case them; they would not collate  
9 them.

10 Q That, you're pretty sure, would never happen  
11 or almost never.

12 A My experience is that they would case them.

13 Q And if you had the situation --

14 A Once you end up with a collation, I think it  
15 would be faster to stick into a case and collate it  
16 with the other letters and flats than it would be  
17 trying to shape, and then the bundle you would end up  
18 with -- that maybe isn't what the policy says you  
19 could do, but that is what people would do.

20 Q So you're saying that it's possible to  
21 collate them, but it's better to case them if the  
22 service requirement prohibits the DPS'ing.

23 A If you were stuck in a situation where you  
24 couldn't back flow this mail and get it to come to the  
25 carrier in the DPS mail, my guess is an operations

1 manager would case it.

2 Q Would you ever, and again we're talking  
3 about routes or portions of routes contractually  
4 limited to three bundles, would you ever have the  
5 collation of a saturation letter mailing, -- we're  
6 dealing with situations B and D on the chart here -- a  
7 saturation letter mailing and a saturation flat  
8 mailing, addressed flats?

9 A My experience is that an operations manager  
10 is going to case a letter mailing, and the reason is  
11 if you're throwing that into an empty case, it's  
12 probably faster than collating it. Now, we could take  
13 it out of the bundle. We probably would not.

14 Q And you probably would not collate; you  
15 would case.

16 A Correct.

17 Q Now, look at Situation E there in the  
18 middle. We're dealing with two mailings of address  
19 flats. How would that be handled on these routes that  
20 are contractually limited to three bundles? Would one  
21 be cased and the other collated?

22 A I would collate them. It's faster to  
23 collate than it is to case flats.

24 Q So you wouldn't case either one of the  
25 addressed saturation flat mailings; you would collate

1 the two of them.

2 A And then take that bundle as the additional  
3 bundle.

4 Q Okay. Now, let's look at, on this Chart, C  
5 and G, where you have -- this is, again, the portions  
6 of the route contractually limited to one extra bundle  
7 -- you have three saturation bundles, which consist of  
8 one letters, two DALs, and three unaddressed flats.  
9 How would the carrier handle that situation, or the  
10 supervisor?

11 A You lost me on that description.

12 Q Well, if you take a look at the chart for a  
13 second, look at --

14 A -- C and G. Right?

15 Q Now, those are in the upper right and bottom  
16 left. That's the same thing. It's letters with an  
17 unaddressed flat with a DAL, and we agree that those  
18 have three components, then: a letter, a DAL, and an  
19 unaddressed flat. How would the carrier handle that,  
20 under a supervisor? Would a carrier ever collate the  
21 saturation letters with the DALs, for example?

22 A Again, I think that you would probably throw  
23 the letters and take the flat as an additional bundle.

24 Q I'm sorry. What does it mean, to "throw the  
25 letters"? It doesn't sound good.

1           A     Throw them into a case.

2           Q     Case them.

3           A     Yes.

4           Q     That's another way of saying casing,  
5     throwing.

6           A     Where I work.

7           Q     (Laughter.) So the carrier would not  
8     collate the letters with the DALs.

9           A     Most likely, no. I mean, it's possible  
10    under the work rules, but my experience is that this  
11    mail would go into the case.

12          Q     Out of curiosity, why not? I'm not sure  
13    about that one. Some of the others, your answers are  
14    more obvious.

15          A     Again, I think that it's probably faster to  
16    stick letters into an empty case where I just have one  
17    because all I'm doing is they are in order; I'm just  
18    going down the ledges of the case. It's not that I've  
19    got to stick randomly in a case. I would say that  
20    most operations managers would think that casing these  
21    letters, rather than trying to collate a flat and  
22    letter and make an additional bundle out of a flat and  
23    letter, would be operationally more effective.

24          Q     Okay. Now, you've gotten rid of one of the  
25    bundles by casing the letters, but you still have two,

1 and you're contractually limited to one third bundle.  
2 You've got DALs now, and you've got unaddressed flats.  
3 What do you do?

4 A I was meaning the letter and the DAL.

5 Q Oh, you would case --

6 A As an operations manager, I don't know DALs.  
7 I know letter-shaped pieces. I know flat-shaped  
8 pieces. I know package-shaped pieces. And that's the  
9 way I would look at these. They are letter shaped,  
10 flat shaped.

11 Q And then let's finish the chart out and look  
12 at the boxes labeled F and H, again, for routes that  
13 are contractually limited to one bundle, and there  
14 you've got three saturation bundles consisting of  
15 addressed flats, DALs, and unaddressed flats. That's  
16 the situation. How would that be handled?

17 A I would collate the flats and put the  
18 letter-shaped piece into the case with the other  
19 flats.

20 Q When you say "letter-shaped piece," you mean  
21 the DAL.

22 A Correct.

23 Q Okay. And that's the way it would be  
24 handled overwhelmingly, in an overwhelming number of  
25 instances around the country.

1           A     Yes. I'm not meaning to -- I just don't  
2 talk about DALs. Sorry. Shaped pieces; that's the  
3 way I think.

4           Q     But the record, unfortunately, needs to be  
5 clear. When you do it, I just have to ask you to  
6 clarify them.

7           A     I'm just meaning that in our conversation,  
8 I'm not trying to sound like I'm not buying your  
9 argument or whatever. I'm trying to be cooperative;  
10 it's just not the way I talk.

11          Q     Sure. Let's look at the last one in the  
12 bottom-right-hand corner, the situation where you've  
13 got two unaddressed flats with DAL mailings with four  
14 pieces. Now, you're contractually limited to one  
15 extra bundle. How is that handled?

16          A     I would follow the same routine. The two  
17 DALs, the letter-shaped pieces, I think I could get  
18 them prepared for delivery faster by putting them into  
19 the case, and the flat-shaped pieces, I would collate  
20 so that I had one bundle of flats.

21          Q     And that's the way you would expect it's  
22 done in the overwhelming number of instances around  
23 the country.

24          A     Yes.

25          Q     Now, would you agree with me that walk

1 sequencing of saturation mail adds value for the  
2 Postal Service insofar as that walk-sequenced mail can  
3 be handled by taking it directly to the street, and  
4 that reduces costs for the Postal Service?

5 A Absolutely.

6 Q And would you agree that when you take that  
7 walk-sequenced mailing, saturation mailing, and you  
8 case it, that it destroys the value of presortation?

9 A I think it's still faster to case mail  
10 that's sequenced. When you are presented with a  
11 handful of letters that can go randomly into any of  
12 500 slots on a case, you are going to be much less  
13 productive in preparing that for delivery than if you  
14 have a handful of mail that is sequenced by address,  
15 and I just put it into a slot next to the slot next to  
16 the slot, all the way through the case.

17 Q I accept your point that it's faster to case  
18 a walk-sequenced mailing, but my question is slightly  
19 different. I'm asking you, you've got a saturation  
20 mailing that's walk sequenced that could go right to  
21 the street and be delivered without any work. If you  
22 case it, you're actually destroying the walk sequence  
23 that's in that third bundle. You're destroying the  
24 value that the mailer put into it, are you not?

25 A That's why where I'm not contractually



1 constrained to only using three bundles, I send that  
2 mail to the street.

3 Q Right. And the same thing about DPS'ing,  
4 that when you DPS a walk-sequenced mailing that has  
5 value that can be taken to the street, you destroy the  
6 value of the walk sequencing, don't you?

7 A Again, there is somewhat of a trade-off. As  
8 we discussed before, working from more bundles is more  
9 complicated when carriers are delivering the mail on  
10 the street, and one of the things that we want to do  
11 is to minimize the number of bundles that a carrier  
12 has to handle when they are on the street.

13 Q I'm not asking about trade-offs so much.  
14 The very fact that you take a walk-sequenced,  
15 saturation letter mailing, which could go to the  
16 street under certain circumstances, and you DPS it,  
17 you've destroyed the value the mailer put into it by  
18 walk sequencing. Is that not true?

19 A I'm not sure I agree with that.

20 Q Well, you go to a DPS machine, you take the  
21 thing that could go directly to the street; and,  
22 therefore, you said it had value, the sequenced mail,  
23 because the Postal Service can carry it in a cheaper  
24 way. Didn't you say that a minute ago?

25 A Yes.

1           Q     And if it has value in it that the mailer  
2     put into it, and you run it over to the DPS twice,  
3     well, you've got it back into walk sequence, but you  
4     had to run it over the DPS twice.  Correct?

5           A     Correct.

6           Q     And so it destroys the walk-sequenced order  
7     that the mailer put to it, charges something to run it  
8     over the DPS twice, and then you've got it back into  
9     walk sequence.  Doesn't that destroy the value the  
10    mailer put into it?

11          A     In those instant pieces, following that  
12    logic, maybe yes, but if that machine broke, and the  
13    mail had to go out to the delivery unit wasn't then  
14    sequenced, the pieces that the mailer had sequenced  
15    already would have much less work content than the  
16    pieces that no one did sequence.  From a system  
17    perspective, I'm not sure that when we process mail on  
18    a machine that someone has gotten a sequencing  
19    discount that that necessarily means that the  
20    sequencing discount has no value.

21          Q     Well, it has value if it's taken to the  
22    street as a third bundle, certainly, doesn't it?

23          A     It has value on the day a machine breaks.

24          Q     Yes.  It gives you lots of flexibility,  
25    doesn't it?

1           A     Right.

2           Q     And gives you faster casing.  Correct?

3           A     When I have a conflict.

4           Q     When you have a conflict.  But when you go  
5     and run it over the DPS, in that situation, it takes  
6     it out of order and puts it back in order on the  
7     second pass, and you've destroyed the value the mailer  
8     had of putting it in order the first time.  Do you see  
9     my point?

10          A     Yes, but there's other things that go into -  
11     - I'm starting to sound like a classification person,  
12     but there's other things that go into a classification  
13     makeup requirement that have to be automation  
14     compatible.  So what's built into ECR mail, the  
15     letter-shaped mail, includes features that will let it  
16     be of value both ways.

17          Q     And if, in a particular instance, there was  
18     a need to DPS the mail, it's available to be run over  
19     automation.  There is no question that that gives  
20     value to the saturation letters.  Correct?

21          A     Yes.

22          Q     I'm just saying that when you do that, you  
23     are taking it out of the walk sequence order the  
24     mailer put it in, running it twice over DPS, and  
25     you're putting it back into walk sequence this time

1 interspersed with other letters. All I'm saying is it  
2 destroys the value the mailer put into it, and it puts  
3 in value from the DPS equipment.

4 A It allows us to take advantage of the value  
5 that the mailer put into it when they made it  
6 automation compatible.

7 Q Yes, but it isn't the automation  
8 compatibility that I'm focused on in my question.

9 A Right.

10 Q It's the fact it's in walk sequence.

11 A Right, but it's sort of a half-empty or  
12 half-full thing, I think.

13 Q This is the last time I'll try to -- let me  
14 say that aren't you really agreeing with me that when  
15 a mailer walk sequences those letters, that he adds  
16 value to it, and when they are run over DPS a couple  
17 of times and put back into walk sequence that it's no  
18 longer the mailer's value; it's now the DPS'ing value  
19 that puts it in walk sequence?

20 A I would say there is some truth in that  
21 perspective, but like I said, there's more features  
22 that are incorporated into an ECR letter than just the  
23 fact that it's presequenced, and to take advantage of  
24 the other things doesn't necessarily degrade the  
25 features that you didn't take advantage of. Now, if

1     you want me to agree, I'll agree, but I'm not sure  
2     that I agree with great enthusiasm. How is that?

3             Q     Any way I can get it. (Laughter.)

4                     Yesterday, I know you weren't here in the  
5     new hearing room, but the inaugural witness, Witness  
6     Crowder, testified, and she said that any saturation  
7     mail that's cased or DPS'd has a higher in-office unit  
8     cost than saturation mail that bypasses casing and  
9     DPS'ing. Do you have any reason to disagree with her?

10            A     Could you run that by me again?

11            Q     We were just talking about in-office unit  
12     cost and very simply that the pieces that bypass  
13     casing and DPS'ing, that those pieces that go directly  
14     to the street, that the cases and DPS'd pieces have a  
15     higher in-office unit cost than the ones that go  
16     directly to the street. It's a very simple premise.

17            A     Yeah, but I have to translate it because I'm  
18     not a cost -- I'm an operations guy. If what you're  
19     saying is that if I can avoid having to handle a piece  
20     in the office, that's of more value, or it costs less,  
21     than if I have to handle it in the office, I would  
22     agree with that.

23            Q     Or in DPS.

24            A     Yeah. If I don't have to go through the  
25     process of running it on a piece of equipment, that's

1 a step I've taken out, If you think of it in terms of  
2 engineering with steps, I guess that makes sense.

3 Q Right. Yesterday, I believe it's fair to  
4 say, Witness Crowder also testified that any  
5 saturation mail that's cased or DPS'd has a higher  
6 street time unit cost than saturation mail that  
7 bypasses casing and DPS'ing, and that was based on  
8 some other postal witnesses. Do you have any reason  
9 for disagreeing with her?

10 A Mail that's cased or DPS'd on the street  
11 is --

12 Q -- higher, more costly.

13 A -- than mail that is in a sequenced bundle?

14 Q Yes.

15 A From an operations perspective, the pieces  
16 that are on the street ought to be pretty close to the  
17 same. If there was any difference, it might be just  
18 that one of the bundle I would have to go to more than  
19 one time to get all of the pieces out of it, where the  
20 other bundle, I take one piece off of the front of  
21 that bundle. The addresses would all be in the same  
22 location so I wouldn't have to look for an address  
23 that might be at the top of a magazine or at the  
24 bottom of a catalog or something like that, but I'm  
25 not sure that I could come up with something that was

1     inherent about pieces that went to the street other  
2     than that it would make them easier to handle.

3           Q     So you don't really have an opinion on  
4     whether, with respect to the street, saturation flats,  
5     let's say, that bypass casing are cheaper or more  
6     expensive to handle than --

7           A     Except for that I know I only have one to  
8     come out of that bundle and that there is something  
9     uniform about all of the pieces in that bundle that is  
10    the same as the characteristics of other pieces. I  
11    don't know why it would be any different, from a  
12    carrier perspective, the source of the mail that I was  
13    delivering.

14          Q     Let's assume it's the same, just for the  
15    purpose of this question, that the street-time cost of  
16    the sequenced mail, as they use that term, the bypass  
17    mail that goes right to the street, versus pieces that  
18    are cased or DPS'd -- let's assume that the street  
19    time is the same, then, for the purpose of this  
20    question. You would agree that taking sequenced mail  
21    directly to the street, bypassing all casing and  
22    DPS'ing, has the lowest combined in-office cost and  
23    the lowest street-time cost. It's the lowest-cost way  
24    for the Postal Service to handle that mail. Correct?

25          A     Again, I'm not a cost guy, but if you flow

1 charted it, the things you have to do with it, yes,  
2 you do fewer things with it. If you did, like, time  
3 and motion, it probably would be less time associated  
4 with that piece to get it into a mail box.

5 Q And would you agree that if the Postal  
6 Service wanted to realize the maximum value of the  
7 mailer-sequenced, saturation mail, it would always  
8 take mail directly to the street wherever it can,  
9 whenever it can.

10 A That's what we do.

11 Q And then would you say that it's true that  
12 saturation letter mailings are only cased as a last  
13 resort, saturation letter mailings, that casing is a  
14 last resort for handling them?

15 A Well, there comes a conflict with what I  
16 said before about not touching any of this. We do  
17 send this mail back to the plant to run on DPS because  
18 that presents us with fewer bundles, and as I said  
19 before, if you gave me letter and flat mailings, I am  
20 more likely to case the letter mailings than the flat  
21 mailings. I'm not sure it's always a last resort.  
22 Just the fact that we back flow the mail to the plant  
23 on automation, that would say it's not a last resort.  
24 That's our first resort, is to send it back.

25 Q Okay. But my question had to do with



1 casing. If you have the choice of DPS'ing, casing,  
2 and taking it to the street, saturation letters,  
3 what's the last resort of those three? Isn't it  
4 casing?

5 A As a delivery manager, I like to avoid  
6 having two letter bundles. My answer, I guess -- the  
7 intuitive answer I would give you is, yes, the last  
8 resort would be to case it, but you might be able to  
9 come back and say, well, when you asked me this  
10 question, you said to avoid having a bundle, you would  
11 case it, then I would have to say, yeah, I probably  
12 would, but, in theory, the last resort would be to  
13 case this stuff, but I really don't having two letter  
14 bundles whenever I have to walk in between delivery  
15 points. I'm not sure that helps you. I'm sorry. I'm  
16 looking at the expression on your face.

17 Q I'm trying to focus on what you're  
18 clarifying from your prior answer. I think it's very  
19 important. I very much appreciate you helping me  
20 through this because these are issues that have gone  
21 untouched for a long time, and this is just a perfect  
22 opportunity to get these matters out and get them on  
23 the record because -- let me just ask you, in terms of  
24 cost, or as you put it, that flow chart of handlings.  
25 The least -- well, let me strike that and ask the

1 question again about Witness Crowder who was here  
2 yesterday.

3 She said it was the policy of the Postal  
4 Service, which, I think, is a fair representation of  
5 her statement, to DPS saturation mailings whenever  
6 possible, letters, even if they have to be back hauled  
7 to the plant, and regardless of cost or how much value  
8 of the mail it destroys -- she didn't say that part.  
9 But is that your understanding, that the policy of the  
10 United States Postal Service for DPS saturation  
11 letters is, wherever possible, back haul them to the  
12 plant?

13 A Yes.

14 Q Now, Witness Crowder also estimated, I  
15 believe, that as much as 55 percent of saturation  
16 letters were DPS'd, and that would have been about 2  
17 billion letters. You don't deal with volume, so that  
18 won't sound right to you or wrong to you necessarily.  
19 Right?

20 A Correct.

21 Q Okay. Let's assume we're dealing with  
22 taking 2 billion saturation letters and choosing to  
23 run those on DPS equipment. Can you explain to me why  
24 the Postal Service would want to destroy the potential  
25 value in that mail that was already sequenced by

1 mailers?

2           A     I think if we go back to our discussion  
3 before about when I'm giving a mailer a signal with  
4 our discount structure about the features that we want  
5 on a mail piece, and one of them is that I would like  
6 for this mail to be sequenced. The other is that I  
7 would like for it to be automation compatible. I  
8 would think that a decision to move this mail back and  
9 put it onto DPS recognizes that, to us, to manage down  
10 the instances where I have to have a carrier using  
11 more than one letter bundle, taking advantage of the  
12 automation-compatibility features of this mail is of  
13 more value to me.

14           Q     Let me take an instance not where a person  
15 is walking a route but where they are in a motorized  
16 component of a route, and they have space to put  
17 trays. You could have a tray of saturation letters  
18 just as easily as a tray of saturation flats, can't  
19 you?

20           A     Yes. The difficulty in being able to break  
21 that up is that I generally manage mail on a five-  
22 digit basis whenever I'm looking at mail flows, and to  
23 pull the mail out for particular routes or sections of  
24 routes rather than to just flow mail by five digit, it  
25 just is far less complicated to handle this mail on a

1 five-digit basis. There are fewer fail points, the  
2 more than I generalize the mail flows. It just is  
3 much less complicated.

4 Q Let's just focus on cheapness for the  
5 moment, efficiency. If it is possible to take a  
6 saturation letter to the street directly, is that not  
7 the cheapest, most efficient way to handle it?

8 A For that letter, maybe, but for, like, a  
9 whole mail-processing system, it may not be. The  
10 fewer things that complicate my mail flows, the more  
11 effective I can be at managing them and that I can  
12 bring my cost of operations down. Where we do things  
13 by exception, all of those things are places where you  
14 have a failure, and the cost of fixing a failure might  
15 be more than what you give up by having a more  
16 simplified mail flow.

17 Q And if the Postal Service develops the  
18 ability to run flats over automation, would, as a  
19 delivery guy, you want to see them run as many  
20 saturation flats, addressed or unaddressed, over  
21 automation that they could?

22 A Are you trying to get me in trouble with my  
23 vice president? (Laughter.)

24 Q Not necessarily.

25 A From a delivery perspective, I think that

1 makes a lot of sense to us. We are still in the  
2 process of thinking through that, and we're on the  
3 record saying that we may not do that.

4 Q From a delivery perspective, however, that  
5 might simplify things for you.

6 A It's fewer bundles.

7 Q So it helps operationally.

8 A Well, that's why my vice president has a  
9 bigger perspective and is thinking in terms of both  
10 the processing and the delivery functions, and we're  
11 thinking about and trying to work the numbers on how  
12 much it makes sense to handle the flats separately if  
13 they can be handled separately. I think where we back  
14 flow letters, we're probably less likely to back flow  
15 flats.

16 Q I want to turn to another section of my  
17 questions having to do with the same chart, A through  
18 I, but this time focus on routes that are not  
19 contractually limited to one extra bundle, and I'm  
20 going to suggest we begin with curb line routes or  
21 curb line sections of routes because those are not  
22 contractually limited to one extra bundle. Correct?

23 A Correct.

24 Q Okay. Could a carrier take two unaddressed  
25 flat mailings and one -- I'm sorry. This is the

1 situation in I, in the bottom-right-hand corner.  
2 Could a carrier in one of these curb line components  
3 that are not contractually limited to one extra  
4 bundle, could they take two unaddressed flat mailings  
5 with DALs directly out and work simultaneously from  
6 those four extra bundles as well as DPS letters and  
7 VFC --

8 A That's what we tell them to do, yes.

9 Q So that's not a problem. It's not a problem  
10 for the motorized route or the curb line route here to  
11 -- the curb line route is a motorized route. Right?

12 A "Motorized" means you have a vehicle, yes.

13 Q So if you have a curb line route, and you've  
14 got, you know, a bunch of unaddressed flats and a  
15 bunch of DALs, and then you've got another set of  
16 unaddressed flats and DALs, and then you've got your  
17 DPS mail, and you've got your VFC mail, is that  
18 carrier not working from six bundles at that point?

19 A Yes. As you've described it or illustrated  
20 it there, it is a little more complicated to work from  
21 a bunch of different bundles rather than just from two  
22 bundles, but it's not so complicated that we can't do  
23 it. It takes much less time to work the mail that way  
24 than it would to put all of that mail into the case.  
25 That's why we send that mail to a street as extra

1 bundles.

2 Q The impression I'm getting is there is  
3 really no practical limit on what carriers who are not  
4 subject to the three-bundle limit can take to the  
5 street. You can pile it up high and deep, and they  
6 take it out and could complain and could work it, and  
7 it would be okay.

8 A We appreciate the business.

9 Q So there is no practical limit on the  
10 capacity of a carrier to take third bundles to the  
11 street where it's not contractually prohibited.

12 A I'm sure at some places you could find some  
13 limit in the number of mailings that you could take.  
14 It's not a limit that we face operationally. We are  
15 not confronted with so much mail that we can't find a  
16 way to get it delivered.

17 Q Let's go back to these charts and make sure  
18 this is -- (pause.) If you were to look at this chart  
19 and the different combinations and conflicts or  
20 multiple saturation mailings on a given day for a curb  
21 line route, you're saying that -- I need to try to  
22 find one sheet of paper that I mislaid -- that if you  
23 had -- let's go through the chart -- Situation A, you  
24 had two letter mailings, that they would both go  
25 directly to the street.

1           A     Where I'm delivering to curb line  
2 deliveries?

3           Q     Yes.

4           A     Yes.

5           Q     That in the case of B and D where you've got  
6 addressed flats, two different mailings of addressed  
7 flats plus your other mail, it goes directly to the  
8 street.

9           A     Correct.

10          Q     And if you have Option E, two addressed  
11 flats, it goes directly to the street.

12          A     Correct.

13          Q     You wouldn't collate it.

14          A     I wouldn't need to. I would not likely need  
15 to. Put it that way. If I had 10 of them, 20 of  
16 them, something like that, you could get me to a  
17 number that I would say, yeah, I would probably do  
18 something to manage the bundle, but from just  
19 straight-up, normal operations, no, we would take them  
20 both as individual bundles.

21          Q     So you think there is no capacity constraint  
22 until you get to 10 to 20 third bundle.

23          A     I didn't say 10 to 20; I just said you could  
24 get me to some number. It's a housekeeping thing,  
25 that's all. You wouldn't necessarily have to have the



1 whole route mailing A in the same tray and have a  
2 separate tray for every mailing. I could set my trays  
3 up so that this tray was Pine Street and have all of  
4 the mail for Pine Street in a tray or in two trays.  
5 It's just housekeeping. It's how you manage the  
6 inventory as you're working your way through the  
7 route.

8 Q I want to go back to the 107 number in your  
9 testimony, which were conflicts where service  
10 commitments required they be handled on the same day.  
11 Correct?

12 A Yes.

13 Q Okay. Now, from your survey and the data  
14 you report, are you reporting the way that these  
15 conflicts were handled in the field or the way that  
16 you define conflicts? Do you know how these mailings  
17 were handled in the field?

18 A I don't, and I purposely didn't want to  
19 know.

20 Q That's interesting. Tell me why.

21 A We tell people we want them to take all of  
22 this mail directly to the street. If I asked them how  
23 they handled it, I'm not sure I would get the truth  
24 from everyone, so all I asked for was how would it  
25 come into the delivery unit, and that's what I

1 described in the process of -- how I analyzed that is  
2 what I described in both the testimony and the library  
3 reference. I tried to think through the scheduling  
4 for delivery of it rather than to ask people how they  
5 did deliver it.

6 Q And you were concerned that you might not  
7 get truthful reporting if you asked them how they  
8 actually did it.

9 A How would I verify it? I could verify that  
10 it comes in. I'm not asking for somebody to tell me  
11 that they didn't follow policy; I just asked when did  
12 it come in.

13 Q Do you care to speculate as to how many  
14 times the mail was actually handled the way that you  
15 indicate -- let me strike that and start again.

16 If you don't know how the mail was handled  
17 actually in the field, doesn't that diminish somewhat  
18 the value of your survey because you're dealing with a  
19 theoretical instance of conflicts, aren't you, by your  
20 definition of "conflict"?

21 A And I didn't say that it was how they  
22 actually delivered it. I laid out that this is the  
23 way that we could handle it that there aren't all of  
24 these conflicts. What I would say is that if you look  
25 at other places in the testimony, and even in Mr.

1 Halldi's testimony, about how much of this mail doesn't  
2 get handled and goes directly to the street, the  
3 numbers that came up in my survey and my analysis of  
4 it seem to comport with my experience. I didn't know  
5 that I would be able to manage the quality of the  
6 information if I asked for people to tell me how they  
7 did it, so I asked for what I knew I could safely get  
8 that would be good information.

9 Q In your Library Reference 150 on the same  
10 page we were looking at before where you defined  
11 "conflict," -- I think it's the fourth page at the top  
12 -- you said, -- I'll wait until you get there --

13 A Okay.

14 Q -- "In assigning delivery days, I attempted  
15 to maximize the number of mailings taken to the street  
16 as third bundles and minimize the number of times a  
17 unit sent more than one full-coverage mailing to the  
18 street at the same time."

19 Would you agree that maximizing the number  
20 of mailings taken to the street as third bundles, the  
21 way that you do in your analysis, has the advantage of  
22 hindsight by you?

23 A I followed the procedures that when I was  
24 the manager of operations program support that I  
25 instructed people and that I sent people out to audit

1 people to make sure that they followed. It's a game  
2 that's played more on an optimal than -- yeah, this is  
3 probably a more optimized result than you would get if  
4 you went to some offices, and it's probably the same  
5 result that you would get if you went to most offices.

6 Q Never less favorable than we would find in  
7 the field, though. Right?

8 A I didn't allow for a delay in the mail, so I  
9 didn't take extra bundles out.

10 Q But that was an option?

11 A That's what I would go out and catch people  
12 doing sometimes so that they didn't have to send  
13 bundles out. It worked both ways. I held as  
14 rigorously to the service commitments as I did to  
15 trying to minimize the bundles. I tried to play it  
16 very fair.

17 Q Right. But when you did your analysis, you  
18 had a complete record of all of the full-coverage  
19 mailings that came in during the survey period before  
20 and after each date. Correct? You could look at the  
21 whole flow, and a supervisor doesn't always know that  
22 when he is handling mail, does he?

23 A No. We discussed that before when we talked  
24 about an operations manager tries to leave  
25 contingencies, and they try to make sure that in a

1     worst-case scenario they are not going to get bit by  
2     something.

3           Q     So isn't it possible that sometimes a  
4     supervisor would prefer to deliver full-coverage mail  
5     sooner than the delivery window that you discuss  
6     rather than run the risk of having a conflict with a  
7     mailing --

8           A     Having three or four of them instead of just  
9     two of them on a day, yes.

10           CHAIRMAN OMAS:   Mr. Olson, excuse me.   Could  
11     you tell me how much longer you might have with this  
12     witness?

13           MR. OLSON:   Fifteen minutes.

14           CHAIRMAN OMAS:   All right.   Go ahead, and  
15     then we'll take a break.   We'll take our morning  
16     break.   Thank you.   I'm sorry to interrupt.

17           MR. OLSON:   I'll look at the time so I can  
18     try to live with that.

19           CHAIRMAN OMAS:   I'm not binding you to the  
20     time.   I just wanted a rough idea.

21           BY MR. OLSON:

22           Q     Nonetheless.   If, in fact, a supervisor were  
23     to try to provide for that contingency, wouldn't that  
24     increase the number of times that the carriers have to  
25     handle more than one extra bundle on the same day?

1           A     Yes, but then in two days, it might mean  
2     that they didn't have to handle one then, too. I  
3     would have to think through, if you were going to do  
4     this wrong, what the numbers would look like as  
5     compared to if you were going to do it right, what the  
6     numbers would look like, and I tried to get this to be  
7     as close to how it would look if you did it right.

8           Q     Let me change direction a bit here and try  
9     to develop an analogy to discuss with you. I want to  
10    ask you some questions about the way ECR letters are  
11    handled that aren't saturation letters. Let's talk  
12    about basic or high-density letters, if we could.

13                Those letters, basic and high density,  
14    cannot be taken directly to the street, can they?

15           A     If they are sequenced, we can take them to  
16    the street. If I don't need to put them into a case,  
17    why would I?

18           Q     Do you get many basic ECR letters that are  
19    sequenced?

20           A     I'm not real good on classification stuff.  
21    Like I said, I deliver it, but my understanding is  
22    that basic is pretty low density. Right?

23           Q     Yes.

24           A     And you can have as few as what, 10 pieces,  
25    and get a basic ECR rate or something?

1 Q I believe so.

2 A I don't know. I'm ignorant. In a case like  
3 where there was 10 of them, you probably wouldn't even  
4 know if it was in sequence. Right?

5 Q Right.

6 A My guess is that stuff goes into a case.  
7 The case goes back to the plant.

8 Q Isn't that true about high density? I had  
9 always been under the assumption that unless it was a  
10 saturation mailing, that it did not go out as a third  
11 bundle. Are you saying that high-density mailings go  
12 out as third bundles?

13 A Sure, they could.

14 Q And do you know the minimum volume per route  
15 of a high-density mailing?

16 A I think it's 125, 175, something like that.  
17 But if it's a recognizable bundle of mail that's going  
18 to a high rise of for Spruce Street, which is curb  
19 line, there is no reason for a carrier to case that;  
20 that could be taken out as a bundle.

21 Q If it gets to the DDU as a bundle --

22 A Correct.

23 Q -- as opposed to having -- the more likely  
24 scenario, I guess, is that --

25 A -- it's going to get caught at the plant,

1     yes.

2                 I was thinking more in terms of flats but  
3     just even more in terms of recognizing it. They come  
4     with WSS, WSH, and LOT designation on the labels, and  
5     that's what you look for as far as whether they are  
6     sequenced or not, and then I guess it's a judgment  
7     call with the supervisor as to whether this is a  
8     section of a route that doesn't need to be handled,  
9     supervisor or a carrier. Carriers like to get out of  
10    the office, too, and I think while we talked almost  
11    all of the time about the saturation, the same would  
12    apply to the high density, and I would imagine the  
13    high density mailings go out more than the basic ones.

14            Q     Well, let's assume for a moment that high  
15    density is caught at the plant, and just for the  
16    purpose of this illustration, it's not going to make  
17    much difference, but basically if you have ECR  
18    basic, -- we'll just take ECR basic -- if you can't  
19    take it to the street, you have to case it, or you  
20    have to DPS it, and that's fairly easy to keep in  
21    mind. If the Postal Service wanted to have a policy  
22    that it wanted to minimize the time city carriers  
23    spend casing this mail, it could set a target to DPS  
24    100 percent of it, capture it in the plant, DPS it.  
25    That could be one approach. Correct?



1           A     That is our approach. We want to DPS 100  
2 percent of the letters.

3           Q     Another way to look at that is to say that  
4 the goal would be to set a goal of casing zero  
5 percent. In other words, you're looking at the flip  
6 side. Instead of saying we want to DPS 100 percent,  
7 we just don't want to case any of it. Do you see what  
8 I'm saying? It's a different way of saying it.  
9 Correct?

10          A     Yes.

11          Q     And, in fact, one implies the other. It's  
12 sort of like a see-saw. The higher percent that's  
13 DPS'd, the lower percentage that's case and vice  
14 versa. Correct?

15          A     To say that you want these in DPS not only  
16 talks about a goal but how to achieve the goal, where  
17 to just say you don't want it in the case doesn't  
18 necessarily give people the guidance, the same  
19 message. A lot of trying to talk policy is how you  
20 get it into a message format that will guide people's  
21 actions.

22          Q     That's a little different point than where  
23 I'm headed, so let me just move on to ask you, if you  
24 have saturation letters, on the other hand, which can  
25 be taken to the street, you've got three

1 possibilities. You can DPS them. You can case them.  
2 You can take them directly to the street. Correct?  
3 At least, theoretically.

4 A Our guidance is --

5 Q We'll get to that, but, theoretically, you  
6 can take the three approaches, don't you?

7 A All right.

8 Q Thank you. Now, let's assume the Postal  
9 Service decides -- forget the current policy -- let's  
10 just take this construct I'm giving you -- the Postal  
11 Service decides it wants to minimize the time that  
12 carriers spend casing letters, and one way to do it is  
13 to say, we're going to DPS 100 percent of them.  
14 Correct?

15 A Yes.

16 Q But that's not the only way to minimize the  
17 in-office time of city carriers, is it? The Postal  
18 Service could say that their goal was to not case any  
19 of it, but that doesn't necessarily imply a goal of  
20 DPS'ing 100 percent of it because you've got that  
21 street option.

22 A There's a number of different ways that you  
23 could avoid having to have some kind of a constraint.  
24 You could also make every kind of delivery a dismount,  
25 and then you wouldn't have to case any of it, but by

1 making every kind of delivery a dismount, you would  
2 make delivering the mail cost a lot more.

3 Q Well, let's not change everything in the  
4 hypothetical. I'm just trying to focus on one point.  
5 But it's not that see-saw. It's not that the more  
6 that's DPS'd, the fewer are cased, as it is with ECR  
7 basic letters. It's a different scenario. There are  
8 three options of casing, DPS'ing, and taking it to the  
9 street. Correct?

10 A Uh-huh.

11 Q Okay. And if you had a goal of saying 100  
12 percent of that mail goes to the street, -- suppose  
13 that were the policy, that 100 percent of saturation  
14 letters go to the street, would that be consistent  
15 with the goal of having no saturation letters cased?

16 A I think you would leave, then, the  
17 opportunity to suboptimize the process in order to get  
18 to a goal that maybe -- wasn't a good goal.

19 Q I'm not saying there aren't other  
20 considerations, but if you have a goal of zeroing out  
21 in-office casing of saturation letters, it doesn't  
22 necessarily imply that you have to go to 100 percent  
23 DPS'ing. You could go to 100 percent taking it to the  
24 street if it were possible.

25 A You could.

1           Q     Okay. And, in fact, it could be any mix  
2     between the two. You could say you're going to take  
3     80 percent to the street and DPS 20 percent. Correct?

4           A     I'm not sure how you would build an  
5     operational infrastructure that would support that,  
6     but yes, you could.

7           Q     Now, let's forget those intermediate  
8     positions. Let's assume it had to be all one way or  
9     all the other way. You've got three and a half  
10    billion saturation letters out there, and if you're  
11    forced to pick between one of two ways to achieve the  
12    goal of zero casing, which one do you think would  
13    cause the Postal Service to incur the least cost in  
14    handling those letters?

15          A     I think the way we do it now probably is the  
16    result of a lot of trial and error, and it probably  
17    comes the closest to the least cost, and that's to get  
18    as much of this processed on automation.

19          Q     Well, let's talk about that option. If you  
20    DPS three and a half billion letters, that's a fair  
21    chunk of change, isn't it? DPS'ing is a two-pass  
22    operation. Correct?

23          A     Yes.

24          Q     So if you've got three and a half billion  
25    letters, you've got to run 7 billion letters over a

1       DPS machine.  Correct?

2           A     Yes.

3           Q     And if you're running them at -- let's pick  
4       a number of 30,000 letters an hour, you're talking  
5       about 233,333 hours of machine time, assuming no jams,  
6       no setup time, continuous operation, -- would you  
7       accept that for the purpose of the question? --

8           A     I'll accept that.

9           Q     -- and the DPS requires one person to load  
10      and one person to sweep, so you're talking about  
11      466,666 hours of clerk time.  Correct?

12          A     Subject to your math.

13          Q     Okay.  Well, it's just two times the earlier  
14      number.  And based on your rebuttal testimony, the  
15      Postal Service has almost unlimited capacity to take  
16      saturation mail to the street if it wanted to.  Isn't  
17      that correct?

18          A     I think I identified places where either  
19      because of the way the customers wanted the mail  
20      delivered or constraints within our infrastructure  
21      where I would say it's not unlimited.  I would say  
22      it's not as big of an issue as Dr. Haldi's testimony  
23      made it sound like.  That was what my testimony was,  
24      that it's probably much less of an issue than Dr.  
25      Haldi's testimony would have someone believe.

1           Q     And in the face of 466,666 hours of clerk  
2     time and 233,333 hours of machine time, you don't have  
3     any sense that the Postal Service could reduce costs  
4     by taking more saturation letters directly to the  
5     street.

6           A     I think, again, you would have to look at  
7     how would you identify the ones that you could take to  
8     the street and then separate them? Our delivery  
9     geography is set up to be gridded in five-digit Zip  
10    codes. Within there, I've got territories that are  
11    smaller. Our infrastructure now is not set up to be  
12    able to pull out of all of the mail for a five digit  
13    just those pieces that could go to the street and  
14    avoid processing just those pieces. The cost of  
15    designing a system like that would probably more than  
16    what it costs to run the mail in the machine.

17          Q     So if it were possible, you have no idea  
18    whether that would save money.

19          A     That's fair to say.

20          Q     Let me ask you about your study and how you  
21    designed it, and I want to say, first of all, is it  
22    your understanding that this is the first effort by  
23    the Postal Service to get data on the handling of  
24    saturation mailings at DDUs?

25          A     I don't know that this has been done before.

1           Q     Well, I want to thank you for taking the  
2 initiative to do it, however rushed you may have been  
3 in having to do it.

4           A     Thank you.

5           Q     I don't want to be critical, having  
6 complimented you, but I want to mention a couple of  
7 things. You picked a three-week period in August,  
8 which you were sort of forced to do that, I guess, to  
9 get your testimony together. Do you have a view as to  
10 whether that's representative of the entire mail year?  
11 Is early August a period with somewhat less-than-  
12 average mail?

13          A     I would say right up front that I didn't  
14 draw the samples statistically. I didn't have people  
15 that were on site managing the quality of the data.  
16 The time frame isn't necessarily a representative time  
17 frame. When I read Dr. Haldi's testimony, it didn't  
18 ring to me as being real true. Rather than writing  
19 rebuttal testimony that was just my experience, I  
20 wanted to buttress my experience with something that  
21 was more than just my experience or calling people and  
22 interviewing, get some data, and look at what you  
23 could get. That's why I put that it suggests that or  
24 it appears that -- I didn't say that it was absolute  
25 truth.

1           Q     Do you have an opinion on how representative  
2     the delivery units were that participated?

3           A     Well, you saw in my direction, being a field  
4     manager, you get a pretty wide range of the kinds of  
5     people who would get when you asked them to do  
6     something without providing them a lot of training. I  
7     asked for a field manager you could trust the data  
8     from rather than an office that was representative.

9                     The data; pretty much it is what it is. I'm  
10    not reporting that it's statistically valid or  
11    representative, but it's better than a guess or one  
12    person's experience or a handful of people's  
13    experience.

14          Q     When the delivery units provided information  
15    for less than three weeks, was it on intermittent  
16    days, or were the days sequential?

17          A     As best I could tell, they were sequential.  
18    I did throw out one, maybe two, offices that seemed to  
19    me all they were telling me was the days that they  
20    had, like, they picked Mondays and Tuesdays because  
21    they had mailings on Monday and Tuesday, and they  
22    didn't keep a log of all of the days. Like I said, I  
23    tried to make this be an honest representation. I'm  
24    learning from it as well.

25          Q     Sure. And you, before, discussed the



1 possible that people would tell you what you wanted to  
2 hear, which is that they processed the mail properly,  
3 so you didn't ask that question. Right?

4 A Correct.

5 Q Okay. And I want you to focus for a second  
6 on Library Reference K-150, the e-mail instructions  
7 that you sent out to the field. Do you have that, the  
8 last page, I think, of that?

9 A Yes.

10 Q This went out to the field as the  
11 instructions as to how to conduct what you were  
12 looking for from this survey.

13 A Yes. In a couple of instances, I had a  
14 little more dialogue with people, but this is  
15 basically what people responded to.

16 Q Well, I want to read you just the first  
17 paragraph there of how you introduced the project to  
18 the people in the field. It says: "In our current  
19 rate case proceeding, Val-Pak Witness Haldi provides  
20 testimony that asserts that in city delivery  
21 operations we often must case sequenced, full-coverage  
22 mailings because of the third-bundle constraint. For  
23 a number of reasons, the Postal Service wants to  
24 challenge Haldi's testimony."

25 Upon reflection, do you think that the first

1 part of this e-mail may have communicated to the field  
2 the answer that you wanted from them, that Haldi says  
3 there are all of these instances where we must case  
4 it, and we want to challenge it?

5 A I was trying to describe the problem and the  
6 data that I wanted to get from them and to tell them  
7 that this wasn't about me doing an audit on how they  
8 handled their mail.

9 Q Upon reflection, do you think it might have  
10 been better if you hadn't told the field the answer  
11 that you wanted them to give you?

12 A You could probably do this a number of  
13 different ways, yes.

14 MR. OLSON: In any event, I thank you for  
15 your initiative, and, Mr. Chairman, I have no other  
16 questions.

17 CHAIRMAN OMAS: Thank you, Mr. Olson.

18 Mr. McLaughlin, with your permission, we'll  
19 let you start your cross after the break.

20 MR. McLAUGHLIN: That would be fine.

21 CHAIRMAN OMAS: Thank you, and we'll come  
22 back at about eleven-thirty. Thank you.

23 (Whereupon, at 11:17, a brief recess was  
24 taken.)

25 CHAIRMAN OMAS: Mr. McLaughlin?

1 MR. McLAUGHLIN: Thank you, Mr. Chairman.

2 CROSS-EXAMINATION

3 BY MR. McLAUGHLIN:

4 Q Mr. Lewis, my questions deal primarily with  
5 your library reference, the survey you did. Start  
6 with page 7 of your testimony where you summarize the  
7 results of your survey. You start there on lines 9  
8 through 11 saying you received 791 full-coverage  
9 mailings, and of those, 230 included both a letter-  
10 shaped piece and a flat-shaped piece, and I think we  
11 established earlier this morning that those 230 are  
12 essentially detached-label mailings. Is that correct?

13 A Oh, I'm sorry. Page 7? The 230 pieces,  
14 you're asking?

15 Q The 230 letter-shaped and flat-shaped piece  
16 mailings, that those were essentially detached-label  
17 mailings. Is that right?

18 A As best I could tell, they were, yes. Many  
19 of them were Advo mailings.

20 Q And if, in fact, you go down to line 14,  
21 where you talk about 337 either had more than one  
22 piece, (230), or had a service commitment requiring  
23 that they be delivered with another mailing (107), the  
24 230 that you refer to there is the same 230 that are  
25 detached-label mailings. Is that correct?

1           A     Correct.

2           Q     Okay. Now, then on lines 16 and 17, you say  
3     that on 23 percent of the 1,328 survey days, delivery  
4     units had to deliver more than one sequenced, full-  
5     coverage mailing. Do you see that?

6           A     Yes.

7           Q     When I looked at your library reference  
8     where you assessed what days you had conflicts between  
9     saturation mailings, is it correct that in every  
10    instance where a delivery unit received a detached-  
11    label mailing, even if that was the only mailing  
12    received that day, you counted that as a conflict.

13          A     Correct.

14          Q     And when you calculated the 23-percent  
15    figure on line 16, that includes in it all of the 230  
16    detached-label mailings being counted as a part of  
17    that conflict.

18          A     It includes all of the days that you had one  
19    of those 230 mailings, yes.

20          Q     And of the 337 total mailings that you  
21    consider to be conflicts, 230 of those, basically two-  
22    thirds of those, represented detached-label mailings.  
23    Is that correct?

24          A     Yes.

25          Q     I must confess, I have not gone through

1 every page of your library reference, but just  
2 scanning down several, I noticed that in virtually  
3 every instance where you listed a detached-label  
4 mailing, it was, of course, listed as a conflict, but  
5 also it was the only mailing that was listed for that  
6 day. Would you agree with that?

7 A Without running my finger down through it, I  
8 would say that the vast majority of them, that was the  
9 only mailing involved that caused a conflict. There  
10 were some instances where there were three pieces for  
11 mailings that had to go out.

12 Q Would you agree, though, that of the 230  
13 detached-label mailings that you had in your survey,  
14 that the great majority of those were instances where  
15 the detached-label mailing was the only mailing on  
16 that day, --

17 A Yes.

18 Q -- the only full-coverage mailing on that  
19 day.

20 So in your conclusion on lines 16 and 17,  
21 where you say that the 23-percent figure includes a  
22 great majority of those 230 detached-label mailings  
23 that were the only mailing on a given day -- is that  
24 right? --

25 A Yes.

1           Q     -- so when you say they are 23 percent of  
2     the survey days, delivery units having delivered more  
3     than one full-sequenced, full-coverage mailing, you  
4     are there treating a detached-label mailing as being  
5     more than one full-coverage mailing. Is that the way  
6     you're using that term?

7           A     Yes. That's what Mr. Olson and I got to as  
8     well, yes.

9           Q     If, in fact, someone were to look at that in  
10    a slightly different way and to say, we're going to  
11    consider a detached-label mailing to be a single,  
12    sequenced, full-coverage mailing coming from one  
13    mailer, and do the analysis as to the number of days  
14    where there was more than one mailing from more than  
15    one mailer, would you agree that the 23-percent figure  
16    would be much, much lower, in fact, would be less than  
17    10 percent?

18          A     Yes, but to be true about what my analysis  
19    was, it talked more, as I agree with Mr. Olson, about  
20    when I had pieces that were full-coverage pieces. It  
21    would be a different problem if you described it as  
22    mailings. From an operations perspective, I see  
23    pieces, and I should have probably said pieces rather  
24    than mailings in here. If you talked about a mailing,  
25    it would change that number a lot, and that's one of

1 the things that I didn't do that I probably, in  
2 retrospect, will go back and try to do is describe  
3 this issue of conflicts, how would you pull it apart  
4 and seeing how you would manage a way from having  
5 them.

6 Q Now, Mr. Olson, by the way, asked you  
7 whether August was a representative month. When  
8 you're dealing with saturation flat mailings, -- take,  
9 for example, Advo. You mentioned that you saw a  
10 number of Advo mailings in this data set. Does Advo  
11 mail as frequently in August as in December as in  
12 September? Isn't it weekly?

13 A My experience is that it's pretty much I can  
14 count on every Tuesday in my office or every Thursday  
15 in my office.

16 Q It's every week of the year.

17 A Right.

18 Q Are you aware of other saturation flat  
19 mailing, such as shopper programs, that are, likewise,  
20 every single week?

21 A I saw many of them that came on the same  
22 day. That was some of what I factored into the  
23 analysis was that these were mailings that I saw every  
24 Tuesday, and so if I was a delivery manager, I would  
25 know I would have that on Tuesday, and that would

1 maybe mean I would deliver something earlier or plan  
2 to defer something so that I didn't have that  
3 conflicting on a Tuesday.

4 Q Now, you are also aware that there are some  
5 saturation mailers that mail on a regular monthly  
6 schedule.

7 A Val-Paks come pretty much on a monthly  
8 schedule, as a -- example, yes.

9 Q And, likewise, are you aware that there are  
10 flat mailers --

11 A Yes.

12 Q -- that have monthly programs as well?

13 So would it be fair to say that when you're  
14 dealing with saturation mail, there is a large chunk  
15 of that -- I won't give a percentage, but there is a  
16 substantial chunk of that that is what you would call  
17 regular mail in terms of having periodicity to it?

18 A In my experience, I would say that I would  
19 believe that to be true, but I couldn't prove that it  
20 was true. It just appears like that's true. It  
21 wouldn't surprise me if someone did an analysis and  
22 showed that it was true. Again, I'm trying to -- let  
23 me just speak to what I know is pretty  
24 straightforward.

25 MR. McLAUGHLIN: I understand. I



1 understand. You were asked some questions earlier --

2 Mr. Chairman, what I have here is more in  
3 the nature of follow up. Is that appropriate at this  
4 time, or would you prefer that I hold that off?

5 Mr. Chairman, what I have left is just a few  
6 questions in the nature of follow up. Should I do  
7 that now, or do you want to do that at some point --  
8 okay.

9 BY MR. McLAUGHLIN:

10 Q You were asked some questions in terms of  
11 DPS'ing letter mail at the plant, whether it would be  
12 possible to split those mailings so that the portions  
13 that go to, for example, foot routes or park-and-loop  
14 routes that have walking sections could be DPS'd and  
15 the rest sent down to be carried out as an extra  
16 bundle. Do you recall that?

17 A Yes.

18 Q Do you recall that Advo sent an  
19 interrogatory to the Postal Service concerning that  
20 subject, an institutional interrogatory?

21 A Yes. I couldn't tell you exactly which one  
22 it was, but I think it's something we discussed.

23 Q I don't have it here myself. If the Postal  
24 Service were to attempt to do that -- let's say that a  
25 saturation letter mailing comes into a plant. In

1     order to split that mailing apart into sections,  
2     wouldn't they first have to bring that mailing inside  
3     the plant? In other words, it wouldn't be sitting out  
4     on the dock.

5           A     It probably wouldn't happen at a plant. It  
6     would probably happen at a delivery unit. In a plant,  
7     I don't conceive how they would know which parts of a  
8     delivery route had territory that was constrained to  
9     three bundles and which parts didn't, and in a  
10    delivery unit, to go through that process would mean  
11    you would have to go through all of the mail and take  
12    certain pieces out and give them to the carriers and  
13    send other pieces to the plant. It would be an ugly  
14    operation, I think. That's why we don't do it.

15          Q     In other words, it would be impossible to do  
16    at the plant because the plant doesn't have the scheme  
17    knowledge to know what portions to pull out and what  
18    portions to send down to the DDU, whereas at the DDU,  
19    it would be an intensive, manual process of going  
20    through, pulling out sections of that mail, retraying  
21    it, and sending it back. Is that correct?

22          A     Yes.

23          Q     So in either case, it would be impractical.

24          A     I don't think you would make money doing it.  
25    From a delivery perspective, I don't think you would

1     save time doing it, and I'm not sure of the quality  
2     you would get out of it, so, yeah, I would say it was  
3     impractical.

4             MR. McLAUGHLIN: That's all I have, Mr.  
5     Chairman.

6             CHAIRMAN OMAS: Thank you, Mr. McLaughlin.  
7             Is there any follow-up cross-examination?  
8             (No response.)

9             CHAIRMAN OMAS: Are there any questions from  
10     the bench?

11            COMMISSIONER HAMMOND: I have a question.

12            CHAIRMAN OMAS: Commissioner Hammond?

13            COMMISSIONER HAMMOND: I'm a little bit  
14     confused. We've heard that some routes have segments  
15     where more than three bundles might be used and other  
16     segments where a carrier should only have three  
17     bundles. With your experience, if a carrier has a  
18     route with these variations, that is, where parts of  
19     the route allow a fourth bundle, and parts don't, how  
20     does the carrier deal with that? What I'm interested  
21     in is how likely it is that a carrier will case  
22     portions of a saturation mailing and then maintain a  
23     separate fourth bundle for those portions of the route  
24     where he can use it. Does that make sense?

25            THE WITNESS: It makes sense. I was trying

1 to think about how I would describe -- when this mail  
2 is presented to a carrier, generally the flats are in  
3 tubs, and there would be bundle that would have some  
4 kind of a banding on them, and you know which sections  
5 of a route are the ones that you would be constrained  
6 to three bundles on. You would pop that bundle apart  
7 and take the mail for that section of your route out,  
8 and whatever in-office handling needed to be done on  
9 that, you would do, or if it's a sequenced letter  
10 mailing that gets to you, if it's in order, I would  
11 just take those portions out.

12 With the bundles of flat mail, it would be a  
13 lot easier to handle, from a supervisor position, on  
14 the floor than dealing with the letters, but that's  
15 what you would do. In the morning, a supervisor would  
16 see what kind of mail that a carrier has that they are  
17 supposed to be -- the morning of afternoon because a  
18 lot of times they handle this stuff in the afternoon.  
19 They would go around and talk to the carriers about  
20 what the expectation is for how the mail would be  
21 handled for these segments.

22 Carriers -- they know what they are supposed  
23 to be doing, and, for the most part, they do what they  
24 are supposed to do with it. But that's what they end  
25 up having to do, if that answers your question. They

1 have to go in and take the bundles apart or go through  
2 the mail that's in a tray to be able to pull out the  
3 parts that they have to actually put into a case or to  
4 collate.

5 COMMISSIONER HAMMOND: Okay. That was my  
6 only question.

7 CHAIRMAN OMAS: Thank you, Commissioner  
8 Hammond.

9 Mr. Koetting, would you like some time with  
10 your witness?

11 MR. KOETTING: Thank you, Mr. Chairman, but  
12 actually I believe I'll just proceed directly to our  
13 relatively brief redirect examination.

14 CHAIRMAN OMAS: All right. Fine. Mr.  
15 Koetting?

16 REDIRECT EXAMINATION

17 BY MR. KOETTING:

18 Q Mr. Lewis, do you recall you had some  
19 conversations with Mr. Olson regarding some testimony  
20 yesterday by Advo Witness Crowder referring to the  
21 relative cost of sequenced mail and nonsequenced mail?  
22 Do you recall those conversations?

23 A Yes.

24 Q I don't know if Mr. Olson used the name of  
25 Dr. Bradley in today's questioning to you, but it

1 certainly was used yesterday with respect to the  
2 statements that Witness Crowder was making about those  
3 relative costs. Are you familiar with the variability  
4 study conducted by Dr. Bradley?

5 A None of the details, just generally that  
6 it's the study that his testimony was built off of.

7 Q Are you aware of whether Dr. Bradley's  
8 measuring cost differences for things like sequenced  
9 mail, nonsequenced mail, whether those cost  
10 differences are due exclusively to differences in the  
11 characteristics of individual mail pieces, or might  
12 they also reflect differences in, for example, where  
13 mail of different types is delivered?

14 A I'm not familiar with that level of detail  
15 of what he did in his study, no.

16 MR. KOETTING: That's all we have, Mr.  
17 Chairman. Thank you very much.

18 CHAIRMAN OMAS: Thank you, Mr. Koetting.

19 Mr. Lewis, that concludes your testimony  
20 here today. We appreciate your appearance and your  
21 contribution to the record, and you are now excused.

22 Ladies and gentlemen, it's about ten minutes  
23 of twelve, so rather than start on the next witness,  
24 why don't we go ahead and take a lunch break and come  
25 back at 1 o'clock? Thank you. See you at one.

1                   (Whereupon, at 11:51 a.m., a luncheon recess

2    was taken.)

3    //

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A F T E R N O O N   S E S S I O N

(1:05 p.m.)

CHAIRMAN OMAS: Mr. Koetting, would you please identify your next witness so that I can swear him in?

MR. KOETTING: Thank you, Mr. Chairman. The Postal Service calls once again Michael D. Bradley.

CHAIRMAN OMAS: Dr. Bradley, since you appeared before us before, you've already been sworn in in this proceeding, so there is no need to swear you in.

Mr. Koetting, you may proceed.

Whereupon,

MICHAEL DAVID BRADLEY

having been previously sworn, was recalled as a witness and was examined and testified further as follows:

MR. KOETTING: Thank you, Mr. Chairman.

DIRECT EXAMINATION

BY MR. KOETTING:

Q Dr. Bradley, please state your full name for the record.

A Michael David Bradley.

//

//



1 (The document referred to was  
2 marked for identification as  
3 Exhibit No. USPS-RT-3.)

4 Q I previously provided you with a copy of a  
5 document entitled "Rebuttal Testimony of Michael D.  
6 Bradley on behalf of the United States Postal  
7 Service," which has been designated as USPS-RT-3. Are  
8 you familiar with that document?

9 A I am.

10 Q Was it prepared by you or under your  
11 supervision?

12 A Yes.

13 Q If you were to testify orally today, would  
14 this be your testimony?

15 A Yes.

16 MR. KOETTING: Mr. Chairman, with that, the  
17 Postal Service will provide two copies of the  
18 testimony to the reporter and request that the  
19 rebuttal testimony of Michael D. Bradley on behalf of  
20 the United States Postal Service, USPS-RT-3, be  
21 admitted into evidence in this proceeding.

22 CHAIRMAN OMAS: Is there any objection?

23 (No response.)

24 CHAIRMAN OMAS: Hearing none, I will direct  
25 counsel to provide the reporter with two copies of the

1 corrected direct testimony of Michael D. Bradley.  
2 That testimony is received into evidence and is to be  
3 transcribed into the record.

4 (The document referred to,  
5 previously identified as  
6 Exhibit No. USPS-RT-3, was  
7 received in evidence.)

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USPS-RT-3

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

REBUTTAL TESTIMONY OF  
MICHAEL D. BRADLEY  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE

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## AUTOBIOGRAPHICAL SKETCH

My name is Michael D. Bradley and I am Professor of Economics at George Washington University. I have been teaching economics there since 1982 and I have published many articles using both economic theory and econometrics. Postal economics is one of my major areas of research and my work on postal economics has been cited by researchers around the world. I have presented my research at professional conferences and I have given invited lectures at both universities and government agencies.

Beyond my academic work, I have extensive experience investigating real-world economic problems, as I have served as a consultant to financial and manufacturing corporations, trade associations, and government agencies.

I received a B.S. in economics with honors from the University of Delaware and as an undergraduate was awarded both Phi Beta Kappa and Phi Kappa Phi for overall academic achievement and Omicron Delta Epsilon for academic achievement in the field of economics. I earned a Ph.D. in economics from the University of North Carolina and as a graduate student I was an Alumni Graduate Fellow. While being a professor, I have won both academic and nonacademic awards including the Richard D. Irwin Distinguished Paper Award, the American Gear Manufacturers ADEC Award, a Banneker Award and the Tractenberg Prize.

I have been studying postal economics for nearly twenty year, and I have participated in many Postal Rate Commission proceedings. In Docket No. R84-

1 1, I helped in the preparation of testimony about purchased transportation and in  
2 Docket No. R87-1, I testified on behalf of the Postal Service concerning the costs  
3 of purchased transportation. In Docket No. R90-1, I presented rebuttal testimony  
4 in the area of city carrier load time costs. In the Docket No. R90-1 remand, I  
5 presented testimony concerning the methods of city carrier costing.

6 I returned to transportation costing in Docket No. MC91-3. There, I  
7 presented testimony on the existence of a distance taper in postal transportation  
8 costs. In Docket No. R94-1, I presented both direct and rebuttal testimony on an  
9 econometric model of access costs. More recently, in Docket R97-1, I presented  
10 three pieces of testimony. I presented both direct and rebuttal testimony in the  
11 area of mail processing costs. I also presented direct testimony on the costs of  
12 purchased highway transportation. In Docket No. R2000-1, I again presented  
13 three pieces of testimony. I presented direct testimony on the theory and  
14 methods of calculating incremental cost and I presented direct and rebuttal  
15 testimony on the econometric estimation of purchased highway transportation  
16 variabilities. Finally, in Docket No. 2001-1, I presented testimony on city carrier  
17 costs.

18 Beside my work with the U.S. Postal Service, I have served as an expert  
19 on postal economics to postal administrations in North America, Europe, and  
20 Asia. For example, I currently serve as External Methodology Advisor to Canada  
21 Post.

## PURPOSE AND SCOPE

The purpose of my testimony is to review, clarify, and correct several assertions about the nature and computation of city carrier costs put forth by Valpak witness John Haldi (VP-T-2). First, Dr. Haldi asserts that the Postal Service is "tightly constrained" in its handling of ECR saturation mailings, and he thus infers that its carriers must case walk-sequenced, saturation letters a high proportion of the time. He also asserts that this "constraint" is not contemplated by the established Postal Service and Postal Rate Commission costing methodology and that, as a result, this costing methodology mis-measures the marginal cost of ECR saturation volume. I show that both parts of this assertion are not correct. Finally, Dr. Haldi attempts to clarify the nature of the Postal Service/Postal Rate Commission costing methodology when he asserts that the Postal Service/Postal Rate Commission methodology measures the average casing cost of saturation letters and flats and not the marginal cost. Again, Dr. Haldi is not correct in this assertion, and his testimony is a bit off track in this area.

Based upon the rebuttal testimony of Postal Service witness Lewis, it seems clear that Dr. Haldi's first assertion is wide of the mark and that the Postal Service faces only a few delivery days in which it must choose between casing letters and flats. The "constraint" witness Haldi so strongly describes is just part of regular Postal Service operations. Moreover, contrary to Dr. Haldi's assertions, the cost implications of this operational reality are included in the

1       Postal Service/Postal Rate Commission costing methodology. Finally, I  
2       rigorously show that the Postal Service and Postal Rate Commission do indeed  
3       measure marginal costs in the area of city carrier casing and demonstrate that  
4       Dr. Haldi's error might be due to a misunderstanding of the established costing  
5       methodology.

6



1  
2 **I. DR. HALDI'S "SEVERE" CONSTRAINT IS JUST PART OF REGULAR**  
3 **POSTAL SERVICE OPERATIONS AND ITS EFFECT IS EMBODIED IN**  
4 **THE ESTABLISHED COSTING METHODOLOGY.**  
5

6 Witness Lewis clearly explained, in his direct testimony, the role that  
7 bundle handling plays in city carrier delivery. In particular, witness Lewis  
8 explained that the sequencing of mail by mailers (along with the spread of DPS  
9 processing) has provided an opportunity for the Postal Service to save office  
10 time:<sup>1</sup>

11 The advent of DPS processing for letter-shaped mail  
12 and the growth of mailer sequenced letter and flat  
13 mailings led to greater focus on the number of  
14 separate bundles carriers work from while on the  
15 street making deliveries. Work rules stipulate that the  
16 Postal Service not require carriers serving foot routes  
17 and park and loop deliveries to work from more than  
18 three bundles on the street. The Postal Service  
19 introduced vertical-flats cases to enable carriers to  
20 combine into one bundle the non-DPS letters and flats  
21 that require in-office manual sequencing by the  
22 carrier. This in-office work method improvement  
23 allows carriers to take more mailer-sequenced mail  
24 directly to the street without in-office preparation.  
25 When delivering to curblane, centralized, cluster box  
26 unit (CBU), and dismount stops, carriers on motorized  
27 routes have no restriction on the number of bundles  
28 they can take directly to the street.

29  
30 The additional bundles carriers take to the street save  
31 a considerable amount of in-office time. However,  
32 adding bundles results in carriers retrieving mail from  
33 more sources when delivering mail on the street. For  
34 example, carriers must check and withdraw mail from  
35 the bundle of DPS letters, from the bundle of cased  
36 mail, and from each of the additional bundles taken  
37 directly to the street.

---

<sup>1</sup> See, Direct Testimony of Jeffery W. Lewis on Behalf of the United States Postal Service," Docket No. R2005-1, USPS-T-30, at 2.

1  
2  
3 As witness Lewis explained, however, on *certain* route sections there is a  
4 possible limit on these cost savings. When carriers deliver mail to foot and park  
5 and loop stops and they have more than three bundles to take to the street,  
6 sequenced bundles of mail may be cased. In other words, the Postal Service  
7 operating procedure is to generally take the bundles of sequenced mail directly to  
8 the street but to case them when necessary.

9 Valpak witness John Haldi attempts to follow up on this testimony and  
10 argues that the Postal Service faces a “critical,” “important,” and “permanent”  
11 constraint in its handling of ECR saturation mail:<sup>2</sup>

12  
13 The importance of recognizing this capacity limitation  
14 cannot be overstated.

15  
16 and

17  
18 Consequently, the capacity constraint on extra  
19 bundles is far more permanent than any constraint  
20 that the Postal Service has ever faced with respect to  
21 automation equipment or space.  
22

23 The “constraint” to which Dr. Haldi is referring is the situation in which, for  
24 a subset of carriers, the number of bundles to be taken to the street exceeds the  
25 number specified in the Postal Service work rules.<sup>3</sup> But, as the rebuttal testimony  
26 of witness Lewis makes clear, Dr. Haldi has either misunderstood or

---

<sup>2</sup> See, “Direct Testimony of John Haldi on Behalf of Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association, Inc.,” Docket No. R2005-1, VP-T-2, at 34 and 36, respectively.

<sup>3</sup> Id., at 28.

1 overemphasized the role of the “extra bundle” in the delivery of saturation mail.

2 In fact, witness Lewis shows that the “constraint” emphasized by Dr. Haldi occurs  
3 relatively rarely, and is thus part (albeit a relatively small part) of the normal  
4 operating procedure the Postal Service employs on a day-to-day basis.<sup>4</sup>

5 In reality, the Postal Service faces many of these “constraints” and this  
6 one is not particularly critical or permanent. In the area of delivery, the Postal  
7 Service faces multiple, long lasting constraints such as:

- 8
- 9 ○ Mail must go to each delivery address.
  - 10 ○ Mail is delivered to residential areas six days a week.
  - 11 ○ Full time carriers work an eight hour day.
- 12

13 All of these are more important and longer lasting issues than the issue raised by  
14 Dr. Haldi. All have been embodied in the established costing methodology, as is  
15 the three-bundle “constraint.” The established methodology is designed to  
16 measure how costs are currently being incurred in light of actual operating  
17 procedures. The cost structure is not preset within the model to reflect a

---

<sup>4</sup> See, “Rebuttal Testimony of Jeffery W. Lewis on Behalf of the United States Postal Service,” Docket No. R2005-1, USPS-RT-2. Witness Lewis indicates that an informal survey of Postal Service districts shows that a *potential* constraint occurs less than one quarter (23 percent) of delivery days. Because only about 40 percent of delivery points are either foot or park and loop, an actual constraint would only occur about 40 percent of the time on that 23 percent of the days. This means that the survey suggests that the constraint is NOT in force over 90 percent of the time. Similarly the data collected in the CCSTS indicates that no sequenced mail is delivered in about 60 percent of the ZIP Code days collected in the sample. Obviously, there can be no constraint if there is no sequenced mail being taking to the street.

1 particular theory of operations, but rather reflects the actual handling of mail by  
2 the Postal Service. To the extent a "constraint" causes a particular class of mail  
3 to be cased more or less often, that reality will be reflected in the measured  
4 casing cost for that product.

5 In sum, Dr. Haldi has not identified a "constraint" in the sense of the  
6 discontinuous marginal cost surface that he imagines.<sup>5</sup> Actually, he has  
7 spotlighted and perhaps overemphasized part of the Postal Service's operating  
8 environment; a part that reflects the fact that a given class of mail may not be  
9 handled in the exact same way on all days. The important thing for the costing  
10 system is that it captures the cost implications of the operating behavior over a  
11 range of offices and volume profiles and does not fall into the trap of attempting  
12 to measure marginal cost based upon what could happen on only one day.<sup>6</sup>

13  
14  
15 **II. DR. HALDI MAKES A MISTAKE WHEN HE ARGUES THAT THE**  
16 **ESTABLISHED COSTING METHODOLOGY CALCULATES "AVERAGE**  
17 **COST" RATHER THAN MARGINAL COST.**  
18

19 Dr. Haldi argues that the Postal Service/Postal Rate Commission system  
20 of calculating product costs for city carrier in office time provides the "wrong"

---

<sup>5</sup> See, "Direct Testimony of John Haldi on Behalf of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.," Docket No. R2005-1, VP-T-2, at 43.

<sup>6</sup> Please note that covering a range of offices and/or days does not require annual or even time series data. A range of volume profiles could be captured in a cross-sectional data set that covers a number of different facilities (each with its own experience) at a point in time.

1 measure of costs.<sup>7</sup> Specifically, he alleges that this method provides “average  
2 cost” instead of marginal cost.<sup>8</sup> In making this assertion, Dr. Haldi is,  
3 unfortunately, making a mistake. He falls prey to the trap of mixing up the cost  
4 response to changes in a cost driver with the cost response to changes in  
5 volume. Generally, they are not the same. This trap is easy to avoid when the  
6 cost driver is something very different than volume, like pound-miles of air  
7 transportation, but in city carrier office work, the cost driver is “pieces handled,”  
8 which could be more easily confused with volume.

9 In this section of my testimony, I lay out that methodology in general  
10 terms, apply it to city carrier in-office time, and then use it to demonstrate where  
11 Dr. Haldi makes a mistake. I also provide both a mathematical and intuitive  
12 justification as to why the Postal Service/PRC methodology provides marginal  
13 cost.

---

<sup>7</sup> I am informed that the Postal Service and the Postal Rate Commission methodologies for attributing city carrier in office costs to products and shapes are the same. The Postal Service and Postal Rate Commission base year estimates of total city in-office direct labor costs (the one discussed by witness Haldi) are exactly the same across all mail subclasses, and by shape and rate subcategory within each subclass. There are some differences in calculated costs between the Postal Service and Postal Rate Commission version of in-office support cost, but these differences arise from application of different street-time variabilities and distribution keys, not from differences in methodology.

<sup>8</sup> See, Direct Testimony of John Haldi on Behalf of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.,” Docket No. R2005-1, VP-T-2, at 42.

**A. The Established Costing Methodology, in General Terms**

The Postal Service/PRC costing methodology proceeds in two main steps, the “variability” step and the “distribution” step.<sup>9</sup> The variability step links the accrued cost in the cost pool with the cost driver for the cost pool through the estimation of a “variability.” This variability measures the percentage response in accrued cost for a given percentage change in the cost driver. The variability may be obtained by assumption, by engineering study, or by econometric analysis.

**Examples of Cost Pools and Cost Drivers**

<b>Cost Pool</b>	<b>Cost Driver</b>
Commercial Air Transportation	Pound Miles
Purchased Highway Transportation	Cubic Foot Miles
Manual Mail Processing	Piece Handlings
Automated Mail Processing	Piece Handlings
City Carrier Street Delivery Time	Delivered Pieces on City Routes

<sup>9</sup> For a thorough presentation demonstrating the volume variable cost per piece produces a measure of marginal cost, see, Testimony of John Panzar on Behalf of the United States Postal Service, Docket No. R97-1, USPS-T-11, at 21, specifically the section entitled “Unit Volume Variable Costs are Marginal Costs.” Alternatively, see, Bradley, M., Colvin, J., and Smith, M. “Measuring Product Costs for Ratemaking: The United States Postal Service,” in Michael Crew and Paul Kleindorfer, eds., Regulation and the Evolving Nature of Postal and Delivery Services: 1992 and Beyond, Kluwer (1992).

The outcome of the first step is the calculation of volume variable cost for that cost pool. Note that this is not unit volume variable costs for the cost pool but rather the total volume variable cost for the cost pool. Note also that this calculation does not produce total cost or total variable cost, the two measures associated with calculating average cost.

In the second step, the volume variable costs are distributed to mail classes based upon a distribution key. The distribution key calculates the proportion of the cost driver that is caused by each product, and that proportion is used to distribute volume variable cost to each product. The distribution key may be proportions of the cost driver, proportions of time, or proportions of volume.

The causal chain underlying the established methodology is demonstrated diagrammatically below:<sup>10</sup>



<sup>10</sup> While the causal chain flows from volume to the cost driver to cost, for computational convenience, the actual costing effort may work in the opposite direction. In the typical costing algorithm, accrued costs are found, a variability is estimated and applied to the accrued cost, and the resulting volume variable costs are distributed to products. The order of computation does not violate the causal chain.

The established methodology has a rigorous mathematical underpinning and that mathematical structure can be used to show that it produces a measure of marginal cost. I present that derivation in this section.

Let  $C_j$  represent the accrued cost for cost pool “j.” One defines the “variability” for that cost pool as the elasticity of cost with respect to changes in the cost driver:

$$\varepsilon_j = \frac{\% \Delta C_j}{\% \Delta D_j} = \frac{\partial C_j}{\partial D_j} \frac{D_j}{C_j}.$$

The volume variable cost for the cost pool is the product of the cost pool’s accrued cost and its elasticity (variability):

$$VVC_j = C_j \varepsilon_j.$$

The volume variable cost in the cost pool for a particular product is found by multiplying the volume variable cost for the cost pool by that product’s share of the distribution key.<sup>11</sup> For product “a” this is given by:

$$\theta_{aj} = \frac{D_{aj}}{D_j}.$$

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<sup>11</sup> In many instances the proportions of the cost driver by class of mail may be directly estimated to obtain the distribution key. In other cases the set of proportions is derived from an alternative source and then applied against the cost driver to form the distribution key.



This permits calculation of the volume variable cost for product "a" in the cost pool:

$$VVC_{aj} = C_j \varepsilon_j \theta_{aj}.$$

Note that this is the total volume variable cost for product "a," not the unit volume variable cost. The unit volume variable cost is found by dividing the total volume variable cost by national volume for product "a," ( $V_a$ ):

$$UVVC_{aj} = \frac{C_j \varepsilon_j \theta_{aj}}{V_a}$$

The Postal Service/PRC methodology is designed to measure the marginal cost for products, the appropriate measure of costs for setting prices in a multi-product firm like the Postal Service. This requires calculating the marginal cost in each cost pool and then summing the marginal costs across the pools. The overall marginal cost for a product is the sum of the marginal costs across the cost pools for that product. For example, if there are "N" cost pools, the marginal cost for product "a" is given by:<sup>12</sup>

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<sup>12</sup> Note that for any given product, the marginal cost in a particular cost pool may be zero. If the product does not require any of the driver for its provision, it will have zero marginal cost for the pool. For example, drop-shipped mail does not use any long-haul purchased transportation and will have a zero marginal cost for the long-haul purchased transportation cost pool.

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$$\frac{\partial C}{\partial V_a} = \frac{\partial C_i}{\partial V_a} + \frac{\partial C_j}{\partial V_a} + \frac{\partial C_k}{\partial V_a} + \dots + \frac{\partial C_N}{\partial V_a}.$$

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The final task needed to show that the Postal Service/PRC costing methodology produces marginal cost is to demonstrate that the unit volume variable cost measured in each cost pool is a measurement of marginal cost.

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For cost pool “j,” the marginal cost for product “a” is given by  $\frac{\partial C_j}{\partial V_a}$ . Because of

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the use of cost drivers in calculating unit volume variable costs, calculation of this

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marginal cost requires application of the “chain rule” for derivatives. Specifically,

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the computational formula for the marginal cost of product “a” in cost pool “j” is

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given by:

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$$\frac{\partial C_j}{\partial V_a} = \frac{\partial C_j}{\partial D_j} \frac{\partial D_j}{\partial D_{aj}} \frac{\partial D_{aj}}{\partial V_a}.$$

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The first derivative on the right-hand-side of the equation is the marginal cost of

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the cost driver (not to be confused with the marginal cost of volume) and can be

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extracted directly from the estimated variability formula. The second derivative

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on the right-hand-side is one, by definition. Because driver use is additive, any

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increase in the amount of the driver used by product “a” leads to an equal

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increase in driver use. The third derivative on the right-hand-side of the equation

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measures how quickly a change in the volume of product “a” causes a change in

the amount of the driver product “a” requires in cost pool “j.” If product “a” makes no use of the cost pool, this derivative will be zero. If product “a” makes very little use of the cost pool, this derivative will be small and it will increase as product “a” makes more and more use of the cost pool.

The working assumption in the Postal Service/PRC methodology is that this derivative can be measured by the product’s cost driver share. Operationally, this assumption means that small increases in volume (we are measuring marginal cost) will cause an increase in the cost driver in proportion to the products current use. Mathematically, this condition is given by:

$$\frac{\partial D_{aj}}{\partial V_a} = \frac{D_{aj}}{V_a}.$$

One can now show the equality between unit volume variable cost in a component and marginal cost in the component:

$$\begin{aligned}
 UVVC_{aj} &= \frac{C_j \varepsilon_j \theta_{aj}}{V_a} \\
 &= \frac{C_j \frac{\partial C_j}{\partial D_j} \frac{D_j}{C_j} \frac{D_{aj}}{D_j}}{V_a} \\
 &= \frac{\partial C_j}{\partial D_j} * 1 * \frac{D_{aj}}{V_a} \\
 &= \frac{\partial C_j}{\partial D_j} * \frac{\partial D_j}{\partial D_{aj}} * \frac{\partial D_{aj}}{\partial V_a} \\
 &= \frac{\partial C_j}{\partial V_a}
 \end{aligned}$$

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Thus far, I have presented the calculation of unit volume variable and marginal cost for a mail product. The final step is to show the analytics supporting the calculation of unit volume variable cost for a shape vector within a class of mail. For example, one might wish to calculate separate marginal costs for ECR letters and ECR flats. The extension is straightforward because the shape vectors are necessarily mutually exclusive subsets of the product's volume. One can directly apply the principles laid out above, particularly making use of the fact that a shape vector within a product may use a zero amount of the cost driver in various cost pools.

To find the unit volume variable costs for a specific shape, one must further refine the distribution key so that it can be used to distribute volume

1 variable cost by product and shape. Thus, for example, one defines a  
 2 distribution key for product “a” letters:<sup>13</sup>

$$3 \quad \theta_{aLj} = \frac{D_{aLj}}{D_j}$$

5

6 The unit volume variable cost for product “a” letters thus is given by:

7

$$8 \quad UVVC_{aLj} = \frac{C_j \varepsilon_j \theta_{aLj}}{V_{aL}}.$$

9

10 It is now possible to show the equivalence between the unit volume variable cost  
 11 by shape and the marginal cost by shape:

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<sup>13</sup> Please note that if the cost pool involves only one shape then the two distribution keys will be the same. For example, if cost pool “j” involved only letters, then  $\theta_{aLj} = \theta_{aj}$ .

$$\begin{aligned}
 UVVC_{aLj} &= \frac{C_j \varepsilon_j \theta_{aLj}}{V_{aL}} \\
 &= \frac{C_j \frac{\partial C_j}{\partial D_j} \frac{D_j}{C_j} \frac{D_{aLj}}{D_j}}{V_{aL}} \\
 &= \frac{\partial C_j}{\partial D_j} * 1 * \frac{D_{aLj}}{V_{aL}} \\
 &= \frac{\partial C_j}{\partial D_j} * \frac{\partial D_j}{\partial D_{aLj}} * \frac{\partial D_{aLj}}{\partial V_{aL}} \\
 &= \frac{\partial C_j}{\partial V_{aL}}
 \end{aligned}$$

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#### **B. Applying the methodology to city carrier casing costs.**

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I am informed that carrier casing time is identified by IOCS tallies which reflect the underlying activities that take place in the delivery unit. The cost pools within the in-office city carrier cost segment are defined by those underlying activities. For the present purpose, the two relevant cost pools identified by IOCS tallies are the casing of letters and the casing of flats.<sup>14</sup> The proportion of tallies that indicate letter casing are used to identify the accrued cost for letter casing ( $C_L$ ) and the proportion of tallies that indicate flat casing are used to identify the accrued cost for flat casing ( $C_F$ ).

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<sup>14</sup> Casing tallies are a subset of in-office direct labor tallies.

The cost drivers in the city carrier casing cost pools are pieces cased (PC) by shape.<sup>15</sup> As the number of pieces cased rises or falls, the cost in the cost pool also rises and falls. If volume changes, but there is no corresponding change in the number of pieces cased, then there is no change in casing cost.

The elasticity of cost with respect to changes in the driver (the variability) is assumed to be one hundred percent for both the letters cost pool and the flats cost pool ( $\epsilon_L = \epsilon_F = 1.0$ ). Finally, the distribution key is based upon IOCS letter and flat casing tallies by product. Because IOCS tallies are proportions of time, not proportions of pieces cased, the Postal Service/PRC methodology imposes one additional condition. Specifically, both models assume that tally proportions by class of mail represent the pieces cased (within shape) by class of mail.

Specifically, this requires:

$$\theta_{aF} = \frac{T_{aF}}{T_F} = \frac{PC_{aF}}{PC_F}; \quad \theta_{aL} = \frac{T_{aL}}{T_L} = \frac{PC_{aL}}{PC_L}.$$

Operationally, this condition requires that the time per letter or flat cased does not depend upon its class. With these formulae, one can calculate the unit volume variable cost for product "a" for letters and flats:

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<sup>15</sup> For the flats casing cost pool the driver is flats cased ( $PC_F$ ) and in the letter casing cost pool the driver is letters cased ( $PC_L$ ).

$$\begin{aligned}
 UVVC_{aL} &= \frac{C_L \epsilon_L \theta_{aL}}{V_{aL}} \\
 &= \frac{\partial C_L}{\partial PC_L} * \frac{\partial PC_L}{\partial PC_{aL}} * \frac{\partial PC_{aL}}{\partial V_{aL}}. \\
 &= \frac{\partial C_L}{\partial V_{aL}}.
 \end{aligned}$$

and

$$\begin{aligned}
 UVVC_{aF} &= \frac{C_F \epsilon_F \theta_{aF}}{V_{aF}} \\
 &= \frac{\partial C_F}{\partial PC_F} * \frac{\partial PC_F}{\partial PC_{aF}} * \frac{\partial PC_{aF}}{\partial V_{aF}}. \\
 &= \frac{\partial C_F}{\partial V_{aF}}.
 \end{aligned}$$

### C. Where Dr. Haldi Gets Off Track

Very clearly, the established methodology produces marginal cost, not average cost, as Dr. Haldi mistakenly states.<sup>16</sup> Where witness Haldi gets off track is in his contemplation of the fact that not all pieces get cased.<sup>17</sup> He argues

<sup>16</sup> See, "Direct Testimony of John Haldi on Behalf of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.," Docket No. R2005-1, VP-T-2, at 42.

<sup>17</sup> Dr. Haldi also makes another error, perhaps in terminology. What he terms "marginal cost" is actually the marginal cost of the driver. It is not the marginal cost of volume as his testimony implies. This leads him to erroneously



1 that the Postal Service/PRC methodology measures the average cost of letter or  
 2 flat casing because it sums together the volume variable cost of those pieces that  
 3 get cased plus the volume variable cost (which equals zero) of those pieces  
 4 which do not get cased and divides that sum by national volume. He terms this  
 5 as an "average" cost. But it is not the average cost as defined by economic  
 6 theory (total cost or total variable cost divided by total volume) but rather the  
 7 marginal cost across the pieces that do and do not get cased.<sup>18</sup> The established  
 8 methodology produces the ratio of a product's total volume variable casing cost  
 9 to its volume. That this cost measure is a marginal cost can be easily shown.<sup>19</sup>

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compare the marginal cost of the driver with the marginal cost of volume under the mistaken terms of "marginal cost" and "average cost." See, for example, "Direct Testimony of John Haldi on Behalf of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.," Docket No. R2005-1, VP-T-2, at 56.

<sup>18</sup> From a computational perspective this could be thought as the "average" marginal cost across all pieces, those that do and do not get cased. Perhaps this is where witness Haldi gets his "average" notion. I say this because his response to Advo/Valpak-T2-24 seems to suggest that he understands that over the course of a year, mail will be handled differently with different cost consequences. But, his response reflects his confusion on how this reality translates into product costs. For example, he states "I have no way of estimating the likelihood that any of the four possibilities described will turn out to be the way that such an additional mailing is in fact handled." It is surprising that Dr. Haldi can't conceive of how to estimate the likelihood, given that this distribution is exactly what the IOCS system reflects, the distribution of how a particular class of mail is handled in the office over the course of a year. Moreover, the next sentence suggests that perhaps Dr. Haldi has fallen into the trap of confusing the cost driver and volume. He mistakenly states: "Furthermore, even if such likelihoods could be estimated, multiplying the cost of each possible handling procedure by the applicable likelihood and then summing would result in a weighted average expected cost." In fact, the established methodology uses such a procedure and, as I demonstrated above, it does not produce average cost, but marginal cost.

<sup>19</sup> In general, average cost is not defined in a multi-product firm that benefits from economies of scope and scale, like the Postal Service. There are special

Suppose that a given proportion,  $\delta$ , of product "a" letters get cased so one can divide the volume of product "a" into those pieces that get cased ( $CP_{aL}$ ) and those pieces that do not get cased ( $NCP_{aL}$ ).<sup>20</sup> Then, the total volume variable casing cost for product "a" letters is given by:

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$$\frac{\partial C_L}{\partial CP_L} * CP_{aL} + 0 * NCP_{aL}.$$

7

The unit volume variable cost is found by dividing by volume:

$$\frac{\frac{\partial C_L}{\partial CP_L} * CP_{aL} + 0 * NCP_{aL}}{V_{aL}}$$

10

With a little algebra, it is easy to show that this equals

12

$$\frac{\partial C_L}{\partial V_{aL}},$$

which is just the marginal cost of letter sorting for product a letters.

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cases in which the average cost exists and is exactly equal to the marginal cost. This would happen if there are no common fixed costs, if there are no economies of scope and there are no economies of scale. Note this is not the situation that Dr. Haldi discusses because he emphasizes the *difference* between what he calls "average cost" and what he calls "marginal cost." See, "Direct Testimony of John Haldi on Behalf of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.," Docket No. R2005-1, VP-T-2, at 56, and fn. 13, *supra*.

<sup>20</sup> The others may be taken directly to the street without casing because they are already walk sequenced.

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2 **III. DR. HALDI'S EXAMPLE ACTUALLY SHOWS THAT THE**  
3 **ESTABLISHED METHODOLOGY MEASURES MARGINAL COST.**  
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6 Witness Haldi provides a simple example which he argues shows the  
7 deficiency in the USPS/PRC methodology. The example has the following  
8 characteristics:<sup>21</sup>

9  
10 First, suppose that within saturation mail the Postal  
11 Service developed separate in-office cost estimates  
12 for casing (i) letters, (ii) addressed flats, (iii)  
13 unaddressed covers with DALs, and (iv) parcels.

14  
15 Second, assume that whenever carriers sort letters,  
16 addressed flats, and covers with DALs, the in-office  
17 cost is, respectively, 1.0, 2.0 and 3.0 cents per piece.  
18

19 Third, assume that whenever covers are taken  
20 directly to the route, the pre-sequenced DALs also are  
21 taken directly to the route, with no in office sortation  
22 (note that this sometimes occurs, but not always).  
23

24 Fourth, to keep this hypothetical simple, assume that  
25 only one sequenced mailing can be taken as an extra  
26 bundle.  
27

28 Fifth, to handle one extra-bundle piece on the street  
29 costs an additional 0.25 cents over the cost of pieces  
30 cased or DPS'd.  
31

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33  
34 Witness Haldi then poses a situation in which, on a particular day, the city  
35 carrier receives one saturation letter mailing, one saturation flat mailing, and one  
36 saturation DAL mailing. Naturally, the Postal Service procedure would be to

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<sup>21</sup> See, "Direct Testimony of John Haldi on Behalf of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.," Docket No. R2005-1, VP-T-2, at 45.

1 have the carrier case the least expensive mailing -- the letter mailing -- at a cost  
2 of one cent and the next cheapest mailing -- the flat mailing -- at a cost of two  
3 cents. The total casing cost in the scenario is three cents. The Postal Service  
4 cost system would record a total cost of three cents in casing costs, one cent for  
5 the letter mailing and two cents for the flat mailing, but witness Haldi finds the  
6 results troubling and apparently he believes it is misleading.<sup>22</sup> He is concerned  
7 that the costing system will show a lower marginal cost for the DAL mailing (zero  
8 cents) than the other two mailings when in fact he "knows" that its marginal cost  
9 is higher than the other two (three cents).

10 This example suffers from two important flaws. First, it focuses on just  
11 one day.<sup>23</sup> This very short-run focus can provide a misleading understanding  
12 how the cost system measures marginal cost and can provide an inappropriate  
13 measure of marginal cost. To use this approach is to assume that all office days  
14 are like the example's office day. Yet, on some days, saturation letter mailings  
15 will arrive at delivery units that have no other sequenced mailings and, on those  
16 days, the letter mailing would not be cased. Appropriate measures of marginal  
17 cost need to cover both eventualities and reflect, in the cost calculation, a  
18 measure of their relative impact on costs. The Postal Service/PRC methodology  
19 does this though the use of IOCS tallies.<sup>24</sup>

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<sup>22</sup> Id. at 46

<sup>23</sup> Id. at 46, 47, and 48.

<sup>24</sup> In response to an ADVO interrogatory, Dr. Haldi seems to recognize this point but then again gets confused between the measurement of marginal cost of volume and the marginal cost of the driver. In his response, he falls into the trap

1           The second major deficiency in witness Haldi's example is its confusion  
2   between the marginal cost of the cost driver and the marginal cost of volume.  
3   The example specifies the marginal cost of sortation or "casing", for different  
4   types of mailings. In the example, city carrier in-office time is the cost and the  
5   cost driver is the number (and type) of mailings that are cased.<sup>25</sup> This is directly  
6   analogous to commercial air transportation in which the cost driver is, say,  
7   pound-miles or to manual sorting in a mail processing plant in which the cost  
8   driver is piece handlings. In the example, the marginal cost of the DAL mailing  
9   cost driver is, theoretically, three seconds, but the marginal cost of the DAL  
10   mailing is zero. Similarly, the marginal cost of a pound-mile of air transportation  
11   of a DAL mailing is positive and the marginal cost of sorting a manual piece  
12   handling in a mail processing plant is positive. But, if the DAL does not fly by air  
13   the marginal cost of air transportation for that DAL mailing is zero. If the DAL  
14   mailing is not sorted manually at a mail processing facility, the marginal cost of  
15   manual sorting is zero. It is quite logical and correct to have a positive marginal  
16   cost for a cost driver but at the same time to have a zero marginal cost for  
17   volume, if the volume does not make use of the cost driver. It is illogical to  
18   charge a product for the theoretical marginal cost of a driver if the product makes  
19   no use of that driver.

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of thinking that the marginal cost of volume is a measure of "average cost." See,  
Dr. Haldi's response to Advo/Valpak-T2-24.

<sup>25</sup>     The example is a bit unusual in that it does not specify the number of  
pieces in the mailings. Normally, the marginal cost would be based upon the  
number of pieces sorted or cased. In essence, Witness Haldi has specified that  
each mailing is a "one-piece" mailing.

1           Witness Haldi then repeats his example, holding the basic assumptions  
 2           the same, but slightly changing the mail mix.<sup>26</sup> In the repeat version he assumes  
 3           the carrier receives a single letter mailing and a single flat mailing. Predictably,  
 4           he argues that the Postal Service will case the letter mail for a cost of one cent  
 5           and take the flat mailing to the street. Equally predictably, he complains that the  
 6           Postal Service costing system would find a marginal cost of two cents for the  
 7           letter mailing and a marginal cost of zero for the flat mailing when, "in reality," the  
 8           cost of casing the flat mailing is higher. Again he confuses the marginal cost of  
 9           the driver -- a piece handling (or here the handling of a whole mailing) -- with the  
 10          marginal cost of the volume. This ignores the fact that If the flat mailing does not  
 11          get cased, it does not cause any casing cost for the Postal Service.

12          Finally, Witness Haldi repeats his example a third time in an attempt to  
 13          show how the Postal Service costing system measures average cost, not  
 14          marginal cost. He keeps the structure of the example intact, but changes the  
 15          volume configuration. In this alternative scenario, he specifies a different  
 16          "particular" day:<sup>27</sup>

17                           Or consider yet another variant of this hypothetical.  
 18                           Assume that, on a particular day, a carrier has three  
 19                           saturation mailings for delivery: two are addressed  
 20                           flats, and one is letters.  
 21  
 22

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<sup>26</sup>     See, "Direct Testimony of John Haldi on Behalf of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.," Docket No. R2005-1, VP-T-2, at 47.

<sup>27</sup>     Id., at 48.

1 In this scenario, the Postal Service will case the letter mailing (at a cost of one  
2 second) and one of the flat mailings (at a cost of two seconds) for a total cost of  
3 three seconds. Witness Haldi argues that the Postal Service costing system will  
4 measure the "average cost" for flat mailings (two seconds for the cased mailing  
5 and zero seconds for the non-cased mailing) of one second, which appears to  
6 equal the marginal cost of the letter mailing (of one second). He states that this  
7 must be wrong because he has stipulated in the example that the "marginal cost"  
8 of casing a flat mailing is twice that of a letter mailing.<sup>28</sup>

9 Again Dr. Haldi is caught in the confusion between the marginal cost of  
10 the cost driver (piece handling) and the marginal cost of volume. It is true that  
11 the marginal cost of a flat "piece handling" is two seconds, twice the value for the  
12 marginal cost of a letter "piece handling." But, the equality between the marginal  
13 costs of the letter and flat volumes comes not from a mistake in the costing  
14 methodology but from the artificial structure of the example.

15 To see this, consider how the Postal Service/PRC methodology would  
16 handle this example (assuming, of course, that it represented the spectrum of  
17 office-days and not just one special case). Below is a table which records the  
18 critical information from the example:

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28 Id., at 48.

The Data for Dr. Haldi's Example

Volume	Cost Driver	Tallies (Time)
1 Letter	1 Cased Letter	1 second
1 Flat	1 Cased Flat	2 seconds
1 Flat	0 Cased Flats	0 seconds

The Postal Service/PRC methodology uses the IOCS tallies to measure the time associated with each of the two mailings. The accrued time for letter casing is 1 second and the variability for letter casing is 100 percent (by assumption). This means the volume variable time for letters is also 1 second. The volume of letters is 1 letter (mailing). Given these values, it is easy to calculate that the marginal cost of the driver for letters is one:

$$\frac{\partial C_L}{\partial CP_L} = \varepsilon_L \frac{C_L}{CP_L} = 1 \frac{1}{1} = 1,$$

where  $CP_L$  is letter cased pieces, the cost driver for the letter casing pool.

Similarly, the marginal cost of the driver for flats is 2:

$$\frac{\partial C_F}{\partial CP_F} = \varepsilon_F \frac{C_F}{CP_F} = 1 \frac{2}{1} = 2.$$

Now we can apply the Postal Service/PRC costing methodology to Dr. Haldi's example and show that it produces the marginal cost (not the average cost) of



1 volume.<sup>29</sup> In the derivation below I show the analytical link between unit volume  
 2 variable cost (UVVC) for letters and flats, along with the calculated magnitudes  
 3 from Dr. Haldi's example. By doing both steps simultaneously, we can see that  
 4 marginal costs are calculated. First, calculate the unit volume variable costs and  
 5 marginal costs for letters. This is equal to the ratio of volume variable cost (found  
 6 by multiplying the accrued cost of 1 second by a variability of 1.0) divided by the  
 7 volume of 1.0. Thus, the unit volume variable cost for letters is 1.0. Above, I  
 8 showed, mathematically, that this is a measure of marginal cost. Here I repeat  
 9 the derivation for letters including the calculated values from the example at each  
 10 step:

$$\begin{aligned}
 UVVC_L &= \frac{C_L \varepsilon_L}{V_L} = \frac{1 * 1}{1} \\
 &= \frac{C_L \frac{\partial C_L}{\partial CP_L} \frac{CP_L}{C_L}}{V_L} = \frac{1 * 1 * \frac{1}{1}}{1} \\
 11 \quad &= \frac{\partial C_L}{\partial CP_L} \frac{CP_L}{V_L} = 1 * \frac{1}{1} \\
 &= \frac{\partial C_L}{\partial CP_L} \frac{\partial CP_L}{\partial V_L} = 1 * 1 \\
 &= \frac{\partial C_L}{\partial V_L} = 1
 \end{aligned}$$

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<sup>29</sup> Note that because Dr. Haldi's example includes only one class of mail the methodology is simplified, because there is not need to distribute the volume variable costs to different classes of mail. Adding this complexity would not affect the outcome.

Similarly, the unit volume variable cost for flats is equal to the volume variable cost (accrued cost of 2 seconds times the variability of 1) divide by volume of 2 flats. This also equals one, but it is the marginal cost of the volume of flats:

$$\begin{aligned}
 UVVC_F &= \frac{C_F \varepsilon_F}{V_F} = \frac{2 * 1}{1} \\
 &= \frac{C_F \frac{\partial C_F}{\partial CP_F} \frac{CP_F}{C_F}}{V_F} = \frac{2 * 2 * \frac{1}{2}}{2} \\
 &= \frac{\partial C_F}{\partial CP_F} \frac{CP_F}{V_F} = 2 * \frac{1}{2} \\
 &= \frac{\partial C_F}{\partial CP_F} \frac{\partial CP_F}{\partial V_F} = 1 * 0.5 \\
 &= \frac{\partial C_F}{\partial V_F} = 1
 \end{aligned}$$

Although Dr. Haldi's example is constructed so that the marginal costs of volume are the same when the marginal costs of the driver are not, this is not evidence supporting the assertion that the Postal Service/PRC methodology measure average cost. Rather, he has just constructed an example where the rate of response cost to a change in the driver is exactly balanced by the rate of response in driver use to a change in volume. In fact, the Postal Service/PRC

1 methodology calculates marginal cost of volume for both letters and flats in the  
2 example.

3  
4  
5 **IV. CONCLUSION**

6 ValPak witness Haldi attempts to show that the fact that sequenced mail is  
7 sometimes cased causes great difficulties for the established methodology. As it  
8 turns out, Dr. Haldi has raised an interesting issue that demonstrates the  
9 resilience of the established methodology. The operational reality does not  
10 support Dr. Haldi's argument that the Postal Service is severely constrained in  
11 handling pre-sequenced bundles of letters or flats. Witness Lewis suggests that  
12 such a situation occurs rarely, around ten percent of delivery days.

13 Moreover, Dr. Haldi has, unfortunately, mischaracterized the established  
14 methodology. I demonstrate that it does indeed measure marginal cost and does  
15 so over a variety of operating conditions. Witness Haldi's claim that the  
16 established methodology for in-office city carrier costs, shared by the Postal  
17 Service and the Postal Rate Commission, produces average cost may be well  
18 intentioned, but it is in error.

19

1 CHAIRMAN OMAS: That brings us again to oral  
2 cross-examination. Two participants have requested  
3 oral cross: the Office of the Consumer Advocate and  
4 Val-Pak Directing Marketing Systems, Inc., and Val-Pak  
5 Dealers Association, Inc. Is there anyone else or any  
6 other participant who wishes to cross-examine Witness  
7 Bradley?

8 Mr. Costich, would you please begin?

9 MR. COSTICH: Thank you, Mr. Chairman. Rand  
10 Costich for the OCA.

11 CROSS-EXAMINATION

12 BY MR. COSTICH:

13 Q Good afternoon, Dr. Bradley.

14 A Hello, Mr. Costich.

15 Q Could you turn to page 22 of your testimony?

16 A I have it.

17 Q On lines 10 and 11, you say, "If the flat  
18 mailing does not get cased, it does not cause any  
19 casing costs for the Postal Service." That's your  
20 testimony. Correct?

21 A Those are the words.

22 Q This morning, I brought to your attention an  
23 article that you co-authored and which you site in one  
24 of your footnotes in your testimony. I would like to  
25 read a sentence or two from that.

1            "There is some degree of substitutability  
2        between these stages of production which may result in  
3        different mixes or intensities of use for each of  
4        these stages of production as volume grows. This may  
5        or may not have an important impact on the cost  
6        results, though this area is certainly worth  
7        exploring."

8            Do you recall those words?

9            A        Yes.

10          Q        Do those sentences mean that there is at  
11        least a possibility of what we might say is cross  
12        effects between one cost pool and another?

13          A        I don't think that's what we were referring  
14        to in the article. My recollection is that, at that  
15        point, we were really talking about things like cost  
16        segments, which would be much broader, --  
17        transportation, mail processing, delivery -- and I  
18        think you're referring to the fact that the CRA, the  
19        Postal Service model, tends to have separate cost  
20        segments and the separability that we were talking  
21        about there is across those segments. The caveat you  
22        mentioned suggested that perhaps there could be some  
23        substitution between transportation and mail  
24        processing. I think that's what we were trying to  
25        suggest there. That's my recollection.

1           Q     Okay.  You were here when Witness Lewis was  
2     testifying this morning.

3           A     Yes, I was.

4           Q     Do you recall his mentioning that there was  
5     consideration of taking flats out of the casing  
6     operation and putting them into a sequencing operation  
7     at a mail-processing plant?

8           A     Yes, I do.

9           Q     Would that be the sort of nonseparability  
10    that you were warning about in the article?

11          A     Actually, not, and I would like to explain  
12    why, if it's useful.

13          Q     Sure.

14          A     Okay.  In the article, what we're trying to  
15    get at is measuring the response of costs to changes  
16    in volume, and it would say that if, in fact, the  
17    volume of Class A goes up, how does the Postal Service  
18    react?  I think my understanding of the discussion  
19    this morning related to a change in technology, where  
20    they have a new process by which they were going to  
21    handle flats, not necessarily because the volume went  
22    up or down but because there's productivity gains to  
23    be had.

24                So the issue that we were discussing, I  
25    believe, in the article was more in response to a

1 small change in volume, would you have those types of  
2 effects you mentioned in the sentences.

3 Q There was discussion this morning also about  
4 sending a letter-shaped sequenced mailing back to the  
5 plant for sequencing --

6 A Uh-huh.

7 Q -- or DPS'ing, I guess we should say. Is  
8 that the sort of interconnection between cost segments  
9 that you were warning about?

10 A Again, my sense is that that operational  
11 procedure is not the response to a volume change.  
12 Again, that has to do with technical advantages of DPS  
13 or change in the production technology. Really, at  
14 this point, we weren't so much worried about changes  
15 in technology rearranging the relative cost  
16 structures, but would the Postal Service response to  
17 changes in volumes induce that.

18 Q Could you turn to page 5?

19 A I have it.

20 Q At lines 3 through 5, you're discussing a  
21 problem that you think there is with Dr. Haldi's  
22 testimony. Correct?

23 A Yes, sir.

24 Q And you say, "He falls prey to the trap of  
25 mixing up the cost response to changes in a cost

1 driver with the cost response to changes in volume."

2 A Yes.

3 Q Let me say right now that I'm always falling  
4 into that trap myself. But I would like to explore  
5 the possibility that perhaps Dr. Haldi didn't.

6 A Okay.

7 Q In the rest of that paragraph, you say that  
8 volume is different from a cost driver and that --  
9 excuse me -- let me back up. When you say "volume,"  
10 does that mean pieces?

11 A Yes. And volume here would be perhaps  
12 originating volume, or what people in the postal forum  
13 call "RPW volume" or "national originating volume"  
14 measured by pieces.

15 Q In line 7, you mention a cost driver called  
16 "pieces handled." Do you see that?

17 A I do.

18 Q The word "pieces" there is not the same as  
19 pieces of volume. Is that right?

20 A I'm not sure I understand your question.  
21 Certainly, the pieces handled is not the same thing as  
22 national volume. They are not the same thing.

23 Q Okay.

24 A The cost driver here reflects the activity  
25 in the carrier in-office function, the handling of the



1 piece.

2 Q So in the office, the cost driver is pieces  
3 handled, and for street activities, the cost driver is  
4 delivered pieces. Is that correct?

5 A That's correct.

6 Q And these are two different things.

7 A Well, conceptually, they are. An individual  
8 piece of volume, national RPW originating volume,  
9 could be a piece handled in mail processing. It could  
10 be a piece handled in the office for carrier street  
11 time, or it could be a piece delivered by a carrier on  
12 the street. I guess what I'm trying to suggest is  
13 they are not mutually exclusive.

14 Q In mail processing, piece handlings are used  
15 as a cost driver. Is that correct?

16 A That's my understanding.

17 Q And in that case, the number of piece  
18 handlings generally exceeds the number of pieces that  
19 actually get sorted in the plant. Is that correct?

20 A Would you say that again, please? I'm not  
21 sure I got that one.

22 Q Let me reword that.

23 A Okay.

24 Q In mail processing or in a mail-processing  
25 plant, a piece that comes into the plant may be run

1     several times through various operations, or even  
2     within one operation, it may be sorted more than once,  
3     and each time it's sorted, that's called a "piece  
4     handling." Is that correct?

5           A     I believe so.

6           Q     So in that case, there is an obvious  
7     distinction between piece handlings and volume. Would  
8     you agree?

9           A     It's hard to say whether it's obvious or  
10    not. I think this type of confusion has come up in  
11    discussions of mail processing with people, too, so I  
12    would leave that to you to determine whether it's  
13    obvious or not.

14          Q     Well, as I said, I'm the one falling into  
15    the trap of confusing volume and --

16          A     I would follow up with you that I do believe  
17    my understanding is that there can be mail that comes  
18    into a mail-processing plant that doesn't get a piece  
19    handling. It just is cross-docked and goes out.

20          Q     But that wouldn't show up in any of the in-  
21    plant cost pools. Right?

22          A     That, I wouldn't know.

23          Q     As I understand it, there is something like  
24    100 cost pools that the Postal Service works with in  
25    developing the CRA. Does that sound about right to

1       you?

2           A     I've never counted them. I don't know.

3           Q     But the basic methodology that you present  
4       here, and which has been presented before, involves  
5       identifying a cost driver for each cost pool. Is that  
6       correct?

7           A     Yes.

8           Q     Does a cost pool have a unique cost driver?  
9       Is there one and only one cost driver for each cost  
10      pool?

11          A     It's a subtle question. I hope my answer is  
12      as good as the question. In some sense, it becomes  
13      the taxonomy of cost drivers. Let me try to be clear  
14      with an example.

15                In carrier street time, one might say there  
16      is a single cost driver, pieces delivered. On the  
17      other hand, we actually do separate analyses for flat  
18      pieces delivered or letter pieces delivered. So one  
19      would say, well, there is one cost driver, pieces  
20      delivered, but in some sense, that's not unique  
21      because there is a finer gradation that is used in  
22      terms of letter pieces or flat pieces and that sort of  
23      thing.

24          Q     You have some examples of cost drivers on  
25      page 6 of your testimony.

1           A     I do?

2           Q     Would you say that these cost drivers are  
3 intuitively obvious to the casual observer?

4           A     Wow.

5           Q     You've never heard that expression before.

6           A     (Laughter.) I guess I would probably say  
7 no. I'm not sure that the casual observer has really  
8 thought about what causes costs to occur in different  
9 postal operations, so it may not be immediately  
10 obvious, no. Just a guess.

11          Q     In the case of the first one you've got  
12 here, commercial air transportation, the cost driver  
13 is pound miles.

14          A     Right.

15          Q     Now, is that because that's how the Postal  
16 Service buys commercial air transportation?

17          A     That's my understanding, that the way costs  
18 are incurred are on the basis of pound miles because  
19 that's how -- the cost driver is really trying to get  
20 at the underlying cost-generating process. Because  
21 the use of pound miles is what generates the cost,  
22 pound miles would be the cost driver.

23          Q     I guess what I'm hoping to get is some  
24 precise explanation of how one goes about determining  
25 the cost driver for a particular cost pool. Is there

1 an analytical process or algorithm that one can  
2 follow?

3 A I think that the process one follows is to  
4 first identify the operational activity that's taking  
5 place in that cost pool, to investigate what's being  
6 accomplished, and to then identify in that process  
7 what is the cost driver. When you say an "algorithm,"  
8 that seems to suggest that maybe you can just put it  
9 into a computer, and it spits out the answer. I don't  
10 think it's quite that easy. I think it actually would  
11 take some work with talking to operational people and  
12 seeing what was the thing that drove costs in that  
13 cost pool.

14 Q So if we were going to write an instruction  
15 manual for a cost analyst telling that person how to  
16 go about identifying a cost driver for a particular  
17 cost pool, one instruction would be to go talk to  
18 operational people.

19 A This is taking me pretty far afield, I  
20 think, from what I'm testifying on, but I would say,  
21 yes, it's a good idea to talk to operational people.

22 Q Well, I don't think it's so far afield from  
23 your testimony, --

24 A Okay. Fair enough.

25 Q -- given that apparently you think Dr. Haldi

1       misunderstood exactly what a cost driver is as  
2       compared to what volume is, and I'm just trying to get  
3       a little more precise understanding of how one ought  
4       to go about identifying a cost driver or convincing  
5       oneself that a convincing cost driver has been  
6       identified. Does that make sense?

7           A       Sure.

8           Q       Could you turn to page 7?

9           A       I have it.

10          Q       On this page, you start discussing  
11       distribution keys. Is that correct?

12          A       Yes.

13          Q       And on lines 7 and 8, you say, "The  
14       distribution key calculates the proportion of the cost  
15       driver that is caused by each product." This is where  
16       a relationship is established between the cost driver  
17       and volume in terms of RPW pieces. Is that correct?

18          A       Yes.

19          Q       Is it possible for a distribution key to  
20       allocate less than 100 percent of volume-variable  
21       costs?

22          A       I haven't really thought about that  
23       question, whether it's possible or not. My intuition  
24       is, no, that generally my experience has been that  
25       cost drivers do distribute 100 percent of volume-

1 variable costs. As to the possibility, at the moment,  
2 I can't think of an exception.

3 Q In certain situations, the distribution key,  
4 or the development of a distribution key, can be  
5 described as estimating an elasticity between the cost  
6 driver and the volume. Is that correct?

7 A Theoretically. To be precise, I think if  
8 one actually estimated the relationship between the  
9 volume and the cost driver, you wouldn't really have a  
10 distribution key anymore.

11 Q What would you have?

12 A I think you would have, then, what in the  
13 article you referred to earlier is called the  
14 "constructive marginal cost approach."

15 Q So you would have a product of two different  
16 elasticities.

17 A Yes, sir.

18 Q But would you have costs allocated to  
19 classes?

20 A Would that lead to costs being distributed  
21 to classes of mail?

22 Q Right.

23 A Yes, sir.

24 Q And I guess that's where I'm thinking that  
25 it's at least conceptually possible that a

1 distribution key would not actually allocate 100  
2 percent of the costs that had been identified in the  
3 prior step of the analysis.

4 A Well, as I said, that wouldn't be a  
5 distribution key, then.

6 Q Then you would need even a further step  
7 analysis?

8 A No. I think as you said when you modify the  
9 two last pieces together that would get you the  
10 complete relationship from volume to cost.

11 Q Cost by class?

12 A By class. Right.

13 Q The reason you don't consider that a  
14 distribution to you is because you wouldn't be  
15 distributing anything?

16 A I mean, I think by definition a distribution  
17 key is something that is designed to distribute volume  
18 variable cost to products. That's what it is.

19 Q Could you turn to page 8?

20 A I have it.

21 Q On line -- you have an equation. Do you see  
22 that?

23 A Which one of the equations?

24 Q Line 8.

25 A Eight. Yes. I have it.



1           Q     Now, here we're back to the first step of  
2     estimating marginal costs, correct?

3           A     Okay.

4           Q     This greek letter epsilon, is that what that  
5     is?

6           A     You know it is.

7           Q     That's the elasticity of cost with respect  
8     to the cost driver?

9           A     Yes, sir.

10          Q     I'll stay out of this trap, I hope. In the  
11     far right-hand side of that equation all of the terms  
12     have a subscript *J* correct?

13          A     They do.

14          Q     *J* is the cost pool?

15          A     Yes, sir.

16          Q     Suppose I were to change the subscript on  
17     the *Ds* to an *I*.

18          A     Okay.

19          Q     Does that have any economic meaning?

20          A     You mean more than just change it to an *I*.  
21     It's that it comes from a different cost pool?

22          Q     Right.

23          A     Okay. So you're saying the change in cost  
24     from the driver in the separate cost pool. Well,  
25     mathematically it would mean that you were assuming

1       that there was some change in Cost Pool *J* from a  
2       change in the driver in Cost Pool *I*. As to whether or  
3       not it has an economic meaning I would think about how  
4       one defined the cost pool, right?

5               The question is whether or not there's any  
6       relationship between the costs in Cost Pool *J* and the  
7       driver in Cost Pool *I* and why that's not a driver in  
8       Cost Pool *J*.

9               Q     Okay. That's a good point. Suppose the  
10      drivers are the same, but we're talking about two  
11      different cost pools?

12              A     Again, I'm not sure what it means for them  
13      to be the same. Again, we could say in mail  
14      processing the cost driver is pieces handled, so you  
15      have say manual letters and manual flats. In some  
16      sense the cost drivers are the same in category, but  
17      they're not the same thing in measurement so I'm not  
18      sure -- are you saying they're the same thing in  
19      measurement?

20              Q     Right.

21              A     Okay.

22              Q     Let's just look at letters in mail  
23      processing. The cost driver in just about all of the  
24      cost pools that deal with letters is pieces handled,  
25      right?

1 A I believe so.

2 Q Is there any reason --

3 A Again, if I may? Is it okay?

4 Q (Nonverbal response.)

5 A Yeah. If I may, to make it easier just say  
6 we had manual and automated letters. The cost driver  
7 for manual would be piece handlings in the manual  
8 operation or manual piece handlings, the cost driver  
9 in the automated operation would be automated piece  
10 handlings, so they're not the same thing.

11 A manual piece handling is not necessarily  
12 the same thing as an automated piece handling. So  
13 they're the same in category, but not necessarily the  
14 same thing in measurement.

15 Q Well, let's focus on the automated. There's  
16 more than one automated cost pool for letters, right?

17 A That's my understanding.

18 Q Again, piece handlings is the cost driver?

19 A Well, again, if we're going to be more  
20 precise let's say we're going to have an OCR and a  
21 BCS, those are on two types of automation, then the  
22 cost driver for OCR would be piece handlings in the  
23 OCR operation or an OCR piece handling, cost driver in  
24 the BCS (different technology, different cost pool)  
25 would be BCS piece handling.

1           Q     I guess that's one of the fine points that  
2 gets me mixed up especially when two different cost  
3 pools could perform essentially the same function,  
4 namely sorting a piece of mail to the three digit  
5 level. If piece handlings is the cost driver why  
6 separate the two machines or the two operations?

7                     They can produce the same effect on a piece  
8 of mail.

9           A     Right.

10          Q     Why not put them in a single cost pool, but  
11 keep track of the piece handlings in each and then let  
12 whatever econometric estimation you did determine  
13 whether there in fact is some sort of relationship  
14 between the two cost drivers and the cost?

15          A     Well, the reason not to do it is the  
16 underlying cost generating process in the two cost  
17 pools are different. For example, let's suppose I  
18 want to transport a letter from Washington, D.C., to  
19 New York. One way I could do that would be to fly it,  
20 another way I could do that would be to drive it.

21                     Both are feasible, both probably actually  
22 happen; however, the cost driver for air  
23 transportation would be pound mile where the cost  
24 driver for the highway transportation would be cubic  
25 foot mile. Both accomplish the same transaction, but

1 the two different cost pools have different underlying  
2 cost generating processes.

3 So that would be the reason that you might  
4 want to have two separate cost pools even though  
5 they're both accomplishing the same function.

6 Q Yes. Again, it seems in transportation it's  
7 easier to understand these differences in cost  
8 drivers.

9 A I think I did say that, transportation, or  
10 in my testimony.

11 Q I won't disagree with you, but when we're in  
12 mail processing or even in Segment 6 and 7, which is  
13 what we're really talking about here, there seems to  
14 be a much closer relationship between the cost  
15 drivers. They have the same name, they sound like the  
16 same thing.

17 A Well, think about mail processing. I mean,  
18 it's not clear to me that the cost generation for a  
19 manual sort of a piece of mail is really the same as  
20 the cost generation for a piece of mail that goes over  
21 a piece of automated equipment that does it at some  
22 amazing rate per hour.

23 So I understand that you're saying well, in  
24 your mind those technologies are close together so the  
25 differences are not so obvious to you, but that

1 doesn't mean that the differences are not there and  
2 shouldn't be at least attempted to be measured.

3 Q If the differences are there would they show  
4 up in an econometric analysis that combines or  
5 includes the same arguments in the cost function for  
6 each cost pool?

7 A I think that's a difficult question to give  
8 a general answer to. One would really need to think  
9 about what the cost generating processes are, what  
10 they're trying to measure, what the econometric  
11 analysis is. So I'm hesitant to give a general answer  
12 to that question.

13 Q When you say *cost generating process* are you  
14 referring to a production function?

15 A Indirectly. The cost generating process is  
16 constrained and comes from the production function.  
17 It's not the production function, but it is related to  
18 the production function.

19 Q So there's a cost function and a production  
20 function?

21 A That's right. That's right.

22 Q When you talk about the cost generating  
23 process you're referring to the cost function?

24 A That's correct.

25 Q Does one need to have some notion of what

1     that cost generating process is in terms of  
2     mathematics if one wants to estimate it or estimate a  
3     derived demand function associated with the cost  
4     function?

5           A     Let's take those two separately. The first  
6     question was I think you said do you need to know the  
7     mathematical shape of the cost generating process to  
8     estimate the cost function, if I'm understanding the  
9     question?

10          Q     I think not quite as constrained as that.  
11     Simply, what arguments are in the cost function?

12          A     That's a very different matter than knowing  
13     the mathematical form. As you probably are aware of  
14     there's a whole body of condimented literature on  
15     flexible form estimation that you don't know; however,  
16     even sort a minimalist approach to economic theory  
17     would suggest that before one estimates an econometric  
18     function one investigates what the arguments should be  
19     in that function. Yes.

20          Q     So I guess what I'm trying to get at is when  
21     you discuss or mention a cost generating process is  
22     that something that can be estimated and if so does  
23     one need to know the arguments of that function to do  
24     the estimation?

25          A     Well, I would say that in the CRA at least

1     those are not always estimated. Many times the cost  
2     generating process has assumed characteristics and can  
3     come by assumption or it could come from engineering  
4     analysis. So no, I don't think that to apply this  
5     methodology one actually needs to estimate the cost  
6     generating process. No.

7           Q     If we equate cost generating process with  
8     cost function then in fact isn't the whole methodology  
9     that has developed here at the Commission designed to  
10    avoid having to estimate the whole cost function?

11          A     If I interpret your question I think --  
12    well, let me try to answer and you tell me if I got  
13    it. I think the cost function one's trying to avoid  
14    is the macro cost function, right? That's what you're  
15    referring to?

16                Not necessarily the cost function in any  
17    particular cost pool, but it's trying to avoid the  
18    requirement of having to estimate what I think -- we  
19    both know that we mean the macro cost function, right?

20          Q     Right.

21          A     Okay. I don't know if that's the sole  
22    reason it's developed in that way, but it's certainly  
23    a benefit of the approach.

24          Q     Within the cost pool we are trying to  
25    estimate that cost generating process, correct?



1           A     No. I think in many instances it just comes  
2     from assumption. I have often tried to find out what  
3     the cost generating process is with some success, some  
4     not, but in the CRA model it's not a requisite  
5     condition that the cost generating process be  
6     explicitly identified to apply the costing  
7     methodology.

8           Q     Let's stick to cost pools where there is  
9     econometrics analysis. In that case you do need to  
10    know what the argument of the cost generating process  
11    is don't you?

12          A     Yes.

13          Q     It's always the case that one of the  
14    arguments or at least one of the arguments is a cost  
15    driver. Is that correct?

16          A     In estimating the cost generating process  
17    for the cost pool one of the arguments is the cost  
18    driver. Yes.

19          Q     Is there always only one cost driver?

20          A     Well, again, this gets a bit to semantics.  
21    The example I know about is city carrier street time  
22    in which we could say the cost driver is represented  
23    by pieces handled, but that econometric equation in  
24    fact has letter pieces handled, flat pieces handled  
25    and so forth as separate cost drivers, so you really

1       could have more than one cost driver on the right-hand  
2       side of that equation.

3           Q       So far no one has taken pieces handled in  
4       in-office activities and included that as an argument  
5       in estimating out-of-office cost variability. Is that  
6       true?

7           A       Not that I'm aware of. I don't know if  
8       anyone's done it.

9           Q       You didn't do that?

10          A       No. I didn't do it.

11          Q       Could you turn to page 10?

12          A       I have it.

13          Q       Line --

14          A       I have it.

15          Q       No epsilon here.

16          A       Okay.

17          Q       On the right-hand side of that equation you  
18       have three different derivatives, correct?

19          A       Yes, sir.

20          Q       I'd like to look at the middle term on the  
21       right-hand side. Suppose that  $D$ , which is cost  
22       driver, is piece handlings in a mail processing  
23       operation. That operation, assume it's an automated  
24       operation, would have a through put associated with  
25       it. Is that correct?

1           A     I take that as your argument.  You mean just  
2     as a sort of general matter?

3           Q     Right.

4           A     Through put being defined as pieces per  
5     hour?

6           Q     Right.

7           A     Sure.  Sure.

8           Q     This middle derivative is a function.  Is  
9     that correct?

10          A     Yes.

11          Q     I think just below here you state that it's  
12     assumed to be additive.  Is that correct?

13          A     Yes.

14          Q     Can that derivative or any of the other  
15     derivatives in this expression deal with the case  
16     where there's more of the cost driver, namely piece  
17     handlings, than can be accommodated by the through put  
18     limitation of the operation?

19          A     So your question is would the derivative --

20          Q     Well, each of these three derivatives is a  
21     function.  Is that correct?

22          A     Yes.  Yes.

23          Q     What I'm trying to get at is when you say  
24     that the *D* is an additive function, that is it's just  
25     a sum, that implicitly assumes that one can just keep

1 adding, and adding, and adding --

2 A No. I don't think it does. I think all  
3 it's saying is that whatever the pieces that went  
4 through one can decompose those pieces into their  
5 class make-up. So if 100 pieces went through I can  
6 divide them into their class make-up, if 1,000 pieces  
7 went through one could divide them into their product  
8 make-up. That's all.

9 Q So that's not the term I should be focusing  
10 on? Because what I'm trying to get at is the notion  
11 that there's too much --

12 A Right. To get through that operation?

13 Q Right.

14 A We agree that we're trying to think about a  
15 world where there's too much to get through that  
16 operation. I'm not sure what the question is that's  
17 flowing from that story or that scenario.

18 Q I guess the only derivative that could have  
19 the potential for counting for that --

20 A It would be the first one.

21 Q -- would be the first one.

22 A Well, the far right-hand side one. Let's  
23 call that one the first one.

24 Q Okay.

25 A Sorry. DAj, DEL-VA. That one. That would

1 account for it, right? Because I think the assumption  
2 would be that if the operation's full than it's not  
3 going to anymore piece handlers, right? It's full up,  
4 right?

5 Q Right.

6 A So if you add more volume you don't add  
7 anymore cost in that operation, so that very first  
8 derivative would be zero.

9 Q First or last?

10 A I'm sorry. Far right-hand side derivative  
11 would be zero.

12 Q Are you familiar with the concept of  
13 congestion cost?

14 A Generally. Yeah.

15 Q My understanding of it is that when one  
16 tries to push too much volume through a constrained  
17 operation that the marginal cost would not be zero, it  
18 would rise rapidly and even become infinite. Any of  
19 that sound right to you?

20 A Wow. I think that's an invitation to get  
21 myself in trouble, but well, let me try. I think one  
22 reason we may not be communicating clearly is after  
23 all the equation on line 13 is for  $C_j$ , all right? I  
24 thought you were talking about a very specific  
25 operation. One cost pool, Cost Pool J, and that Cost

1 Pool J is full up.

2 So if I add more volume to the system its  
3 cost can't go up. That's not to say that the postal  
4 service's cost wouldn't go up, right? Presumably,  
5 they'll handle that volume in some other way. I think  
6 that's where the marginal cost that you refer to would  
7 be incurred.

8 One would need to speculate as to what the  
9 shape of that subsidiary or additional marginal cost  
10 service looks like.

11 Q Presumably, the marginal cost in that  
12 operation would be higher than the one that we're  
13 looking at here, correct?

14 A Well, not necessarily.

15 Q If there were an operation where they lower  
16 marginal cost wouldn't the postal service already be  
17 using it?

18 A I guess I'm thinking of a situation in which  
19 that did not occur. An example of this would be years  
20 ago the postal service had something called the Eagle  
21 Network. The Eagle Network was designed for express  
22 mail. The postal service had to buy full plane  
23 capacity and so those planes were full every night.  
24 Your example of full up through put.

25 They were full. If another piece of express

1 mail came on that plane it bumped something, bumped  
2 first-class mail. First-class mail went over to  
3 commercial air. The marginal cost of putting a piece  
4 of express mail on that Eagle Network was the lower  
5 marginal cost of commercial air because the pound mile  
6 rate was lower on commercial air.

7 So while I understand where you're going I  
8 think one just has to be careful in necessarily saying  
9 always because there's an example where I know it  
10 didn't happen.

11 Q Well, let's look at that example a little  
12 more. Sometimes on that network pieces other than  
13 express mail were carried. Is that correct?

14 A That's correct.

15 Q That was the case when the volume of express  
16 mail didn't fill the --

17 A Yes, sir.

18 Q You want to help me out of that trap? Then  
19 something like priority mail.

20 A I think it was first.

21 Q Okay. First-class. What would be the  
22 marginal cost for that first-class mail that was put  
23 on those Eagle flights?

24 A Is this before or after they're full?

25 Q Before.

1           A     Well, that's a good question. In some sense  
2 because the postal service had paid for this capacity  
3 in full sense it would be zero.

4           Q     Would the postal service costing systems  
5 have identified that as zero?

6           A     I don't think so. No. I think they would  
7 have -- well, I don't remember. My recollection is it  
8 probably got first commercial air cost, marginal cost.

9           Q     To get back to the express mail, if the  
10 Eagle flight is filled and there's one more express  
11 mail piece to go you're saying that would fall back to  
12 commercial air?

13          A     No. It would bump an equal amount of first-  
14 class to commercial air.

15          Q     Well, I'm positing that the Eagle flight is  
16 full of express mail.

17          A     Never happens. Nowhere close. Well, I  
18 shouldn't say that. I shouldn't be so short. Sorry.  
19 Sorry. Let's posit it was for express mail. Go  
20 ahead. Then the question is -- okay, that situation.  
21 I'm sorry. I was too quick. The airplane's full of  
22 express mail and now we're going to add another piece  
23 of express mail so it can't possibly be handled on  
24 that plane. What do we do with it?

25          Q     Well, what's the marginal cost of the piece



1 going to be?

2 A Yeah. That's a good question. It really  
3 depends upon how it's handled in the alternative. I  
4 guess you can think of different scenarios. They  
5 could hire another whole plane and stick on that plane  
6 and fly it or they could put it on commercial air. It  
7 really just depends upon what the alternative is, how  
8 it's handled.

9 Q I guess part of the problem here is why was  
10 there an Eagle Network in the first place? It was to  
11 have a certain guaranteed amount of capacity for  
12 express mail, correct?

13 A Correct. Correct.

14 Q I think we can take it that was the least  
15 expensive way to deal with express mail at the time.

16 A Uh-huh.

17 Q I still want to get back to this problem of  
18 marginal cost when capacity is reached actually being  
19 lower than when it's not reached.

20 A Something counterintuitive about it isn't  
21 it?

22 Q Yes.

23 A Yeah.

24 Q There's something else involved I think.

25 A I would agree that in general if we're

1 thinking about -- I guess my point is just trying to  
2 suggest that the postal network is complex.

3 We had to be careful in simplifying it too  
4 much, but I would certainly agree as a general matter  
5 that if I found the least cost way of producing  
6 something and I then totally used up that least cost  
7 way of producing it so now I've got to use a second  
8 method, I would incur a higher a marginal cost.

9 I think that's a well-founded economic  
10 principle.

11 Q With all of this as preliminary can we say  
12 that what Dr. Haldi has described is a similar  
13 situation to this capacity constraint that he talks  
14 about that there's a spill over from activity in  
15 street time that has an effect on costs in the office?

16 A I think not. I think this really is  
17 different than the Eagle type of scenario where you  
18 have a fixed capacity, and that's set and if you put  
19 more volume on it you have to react in a certain way.

20 My understanding and my thought about what  
21 witness Lewis said and how he described it is that  
22 this really is not a situation where carriers are  
23 constantly constrained by the number of bundles they  
24 have on the street, you know? The postal service has  
25 made decisions and they've made an operating plan of

1 sometimes taking mail to the street.

2 It's complex, but it looks at their overall  
3 workload, so I don't think this is quite the same  
4 scenario. No. I don't agree.

5 Q Are you talking about the magnitude or are  
6 we talking about the existence of the problem?

7 A I don't know that those two things are  
8 completely separable because in part a constraint only  
9 matters if it's binding, right? So I don't know that  
10 I would completely agree that the scenario is the same  
11 if every carrier every day had a third bundle versus  
12 when 20 percent do or 50 percent do. I don't know  
13 whether they are really the same operational  
14 situation.

15 The reason I say that is that we were  
16 talking earlier about the cost generating process  
17 coming from the production function and one needs to  
18 think about whether the constraint that we're  
19 discussing is embodied in the technology of the  
20 production function leading to the cost generating  
21 surface or is it some constraint like on line 13, some  
22 constraint on that equation.

23 So in my view this character situation is  
24 much more like the former.

25 Q By *the former* you mean the constraint is

1 embodied in the technology?

2 A Technical point. The postal service is  
3 aware of it before they do their operational plan,  
4 they know about it, blah, blah, blah, and then they  
5 made operational decisions.

6 Q So we won't argue about whether it's the  
7 best way to do it, it's that's the way they do it and  
8 they've probably got good reasons for doing it, but at  
9 least sometimes it's a question of bumping isn't it?  
10 The flat mailing shows up and bumps a letter-shaped  
11 mailing?

12 A By *bumped* you mean the flat mailing goes to  
13 the street instead of the letter mailing?

14 Q Right.

15 A I guess the way I would articulate it would  
16 be the flat and letter mailings show up together and  
17 the postal service makes the choice to take the flat  
18 mailing instead of the letter mailing. That's my  
19 understanding of the process.

20 Q That choice results in casing costs in the  
21 office?

22 A For the letters.

23 Q Well, it's certainly measured for the  
24 letters.

25 A Okay. Sorry. I didn't mean to put words in

1     your mouth.  Yes.  That would lead to some casing  
2     costs.

3           Q     Aren't those casing costs caused by the  
4     simultaneous arrival of both letters and flats?

5           A     It's not clear.  I thought about this issue  
6     where you're going and I have some sympathy for the  
7     notion that if in fact the world reflects that, let me  
8     make sure I get this right, the letter mailings were  
9     always there first, they were there every day and  
10    every day I added a flat mailing on top of that,  
11    right, then I think we are beginning to think about a  
12    situation which is more synonymous with the Eagle.

13                We want to think about calculating the  
14    marginal costs.  What one does for those costs.  Yes.  
15    Yes.  I don't think as a theoretical matter or an  
16    empirical matter that really describes this situation,  
17    but I do understand that theoretical point.  Yes.  I  
18    don't dispute it.

19                MR. COSTICH:  Thank you.

20                I have no further questions, Mr. Chairman.

21                CHAIRMAN OMAS:  Thank you, Mr. Costich.

22                Mr. Olson?

23                MR. OLSON:  Mr. Chairman, before I begin  
24    with Dr. Bradley my memory fails me as to whether I  
25    asked if we could transcribe the three Lewis cross-

1 examination exhibits. I know that I gave them to the  
2 court reporter, but if I could just ask --

3 CHAIRMAN OMAS: I think you did at the  
4 beginning. I'm not sure. Yes. He agrees with me.  
5 You did earlier this morning.

6 MR. OLSON: Thank you.

7 CROSS-EXAMINATION

8 BY MR. OLSON:

9 Q Dr. Bradley, Bill Olson representing Valpak.

10 A Hello.

11 Q Hi. I want to ask you to turn to page III  
12 at the beginning of your testimony, purpose and scope.

13 A I have it.

14 Q There you offer some quotations from witness  
15 Lewis, here earlier today, to the effect that except  
16 for a few routes or route segments that where there's  
17 a contractual constraint on the number of extra  
18 bundles that a city carrier can be required to take to  
19 the street that the postal service has almost  
20 unlimited capacity to handle saturation mail as extra  
21 bundles, correct?

22 A I actually don't see that on page III.  
23 Maybe you could point out where I said --

24 Q You talk about it line 8. You say Dr. Haldis  
25 asserts the postal service is tightly constrained.

1 Line 11 you say that this constraint is not  
2 contemplated. At the bottom you say you rely on the  
3 testimony of witness Lewis.

4 On page 21 you say it seems clear that Dr.  
5 Haldi's first assertion which has to do with tight  
6 constraints is wide of the mark and the postal service  
7 faces only a few delivery days in which it must choose  
8 between casing letters and flats. That's what I'm  
9 referring to. Did I fairly describe it?

10 I mean, are you not quoting witness Lewis to  
11 the effect that there are not nearly so many  
12 constraints as Dr. Haldi indicated in his testimony?

13 A Yes. I guess you had said something earlier  
14 about unlimited capacity and those sorts of things and  
15 I don't know that I got into that, but I think the  
16 thrust of -- well, my understanding of what witness  
17 Lewis said and what his work showed was that this  
18 issue of having to make a decision between the letter  
19 and flat bundle is not something which happens 80  
20 percent of the time or 90 percent of the time at all.

21 It's not a tight constraint.

22 Q When I juxtaposed tightly constrained, the  
23 words in your testimony, with having great capacity to  
24 take saturation mail to the street as extra bundles  
25 that was my point. Is that a reasonable conclusion?

1 That it's either tightly constrained, which you say  
2 Dr. Haldi posited, and rather you think that's a very  
3 rare thing that there's a constraint, that most of the  
4 time there's available capacity to take these third  
5 bundles to the street?

6 A If the constraint is not tight or not  
7 binding that would suggest that the postal service was  
8 able to take a third bundle to the street without  
9 casing. Yes. I'm with you. Yes.

10 Q In making that conclusion are you relying on  
11 witness Lewis' testimony in his study or are you  
12 offering your own testimony on that point of the  
13 degree to which there is constraint in the system?

14 A I'm relying upon what witness Lewis said and  
15 one piece of data from the TCSTS study that was  
16 collected earlier which showed that on 50 percent of  
17 the days zip codes did not get any, well, what I  
18 unfortunately called sequenced mail.

19 Q Well, at least we know what you mean by it.

20 A Fair enough. Fair enough.

21 Q You do agree that at least on some routes on  
22 some days that some city carriers may be limited to  
23 the number of extra bundles that they can carry?

24 A My understanding. Yes.

25 Q Would you turn to page 3 of your testimony?



1           A     I have it.

2           Q     Starting on line 5 you discuss what you call  
3 long-lasting constraints at the postal service.

4           A     Yes.

5           Q     You make the point that a constraint of the  
6 sort Dr. Haldi's testifying about is not uncommon and  
7 I believe your point is there on line 5 that the  
8 postal service faces many similar constraints,  
9 correct?

10          A     Yes, sir.

11          Q     I just want to take the first one and try to  
12 understand this better. This is line 9. The first  
13 one says mail must go to each delivery address. Let  
14 me ask you, is that some kind of limitation on the  
15 capacity of city carriers?

16          A     Well, it's a limitation on the technology of  
17 delivering mail. When we talk about constraints those  
18 are things that limit the way in which one handles the  
19 mail, and so I would say that would be a constraint on  
20 the delivery process, that you have to go every  
21 delivery. Yes.

22          Q     Not a capacity constraint?

23          A     No. Not a capacity constraint. No.  
24 Agreed.

25          Q     The second one on line 10 is mail is

1 delivered to residential areas six days a week. Is  
2 the fact that mail is delivered to residential  
3 addresses six days a week any limitation on the  
4 capacity of city carriers?

5 A In surface, no. I think it could certainly  
6 have implications for the number of carriers and their  
7 capacity, you know, how much mail they have each day  
8 and how much they take, so it certainly could be  
9 related to the capacity. It's not the same thing as  
10 saying that their truck is full or that they don't  
11 have enough time to deliver all the mail.

12 It's a different flavor of constraint in  
13 that regard. Yeah.

14 Q Not quite the same kind of capacity  
15 constraint Dr. Haldi's talking about with third  
16 bundles?

17 A Excuse me?

18 Q It's not quite the same kind of capacity  
19 constraint that --

20 A No.

21 Q -- Dr. Haldi's talking about with third  
22 bundles either, correct?

23 A It's not the exact same type of constraint.  
24 No. Agreed.

25 Q Then the last one is that full-time carriers

1 work an eight hour day. You might make an interesting  
2 point here, but is an eight hour day a capacity  
3 constraint?

4 A I think it is. I think the point I'm trying  
5 to make here is that as we look at what Mr. Costich  
6 and I were talking earlier, the cost generating  
7 process underlying the cost incurrence, there are a  
8 variety of constraints that influence that cost  
9 generating process.

10 They don't necessarily have to be all the  
11 same flavor to have the affect of influencing the way  
12 the costs are incurred. So of the three I think the  
13 closest in terms of limiting the capacity would be the  
14 third one, but I think they're all what we think of as  
15 constraints on the technology process.

16 Q At least the first two are certainly not  
17 capacity constraints?

18 A Not strictly speaking. No.

19 Q On page 3 on line 15 you say the established  
20 methodology is designed to measure how costs are  
21 currently being incurred in light of actual operating  
22 procedures, correct?

23 A Yes, sir.

24 Q Then at the top of page 4 I'm just going to  
25 skip a sentence and it says to the extent a constraint

1 causes a particular class of mail to be cased more or  
2 less often the reality will be reflected in the  
3 measured casing cost for that product, correct?

4 A That's what it says.

5 Q With that in mind, with all that as  
6 predicate I'm going to launch us into the discussion  
7 of a hypothetical which deals with a saturation mail  
8 subclass which now doesn't exist. It's a  
9 hypothetical. It has six elements to it and I'm going  
10 to read them to you nonetheless, but I did it in  
11 writing.

12 MR. OLSON: Mr. Chairman, if I could hand  
13 these out? Watch your step. Thank you. Yes.

14 THE WITNESS: Thank you.

15 (Pause.)

16 BY MR. OLSON:

17 Q Have you had a chance to read it once?

18 A Quickly.

19 Q Yes. Well, I want -- let's walk through it.

20 A Okay.

21 Q Good enough. This is as simple as we could  
22 make it. I'm sorry it has so many points, but it's  
23 the best we could do. The first, I want you to assume  
24 that there is a separate subclass that is limited to  
25 and exclusively for saturation mail, and all

1 saturation mail in this subclass must be prepared by  
2 the mailer in carrier walk sequence. The first --

3 A Okay.

4 Q -- point. Okay.

5 A Okay.

6 Q The second point is that in this new  
7 saturation subclass, I want you to assume that the  
8 Postal Service offers only three products, and each  
9 product does cost and price separately. The three are  
10 saturation letters, saturation addressed flats, and  
11 saturation unaddressed flats accompanied by DALs,  
12 okay?

13 Then third, I want you to assume that each  
14 product and all mail in the subclass qualifies or is  
15 eligible -- that's a word that has been used  
16 yesterday --

17 A Okay. Okay.

18 Q -- it is eligible to be taken out on city  
19 carrier routes as extra bundles. Whether it be, you  
20 know, letter shape or flat shape, it's eligible to go  
21 directly to the street.

22 A Okay.

23 Q Fourth, that for city carrier routes alone,  
24 their annual volume of each of the three products is 4  
25 billion, and I'll have a handout for you in a second.

1     You don't have to write too much of this down unless  
2     you want. For each of the -- for city carrier routes  
3     alone, that the annual volume of each of the products  
4     is 4 billion, so there are 3 products and it totals 12  
5     billion volume on city carrier routes.

6           A     Okay.

7           Q     Okay? This gets us far away from one of Dr.  
8     Haldy's hypotheticals that in his testimony we're just  
9     coming up with something fresh today.

10           The fifth assumption for simplicity is that  
11     all mail in the saturation subclass must be entered at  
12     the DDU so none of the products have any upstream  
13     costs like transportation, unloading, or cross-  
14     docking.

15           And lastly, each hatch -- all the mail in  
16     the hypothetical saturation mail subclass weighs less  
17     than 3.3 ounces, whether it be letters or flats.

18           I know it's hard to keep all this in mind,  
19     but we're going to go slowly and --

20           A     Okay.

21           Q     -- and those are the assumptions. Now we  
22     want to begin a discussion of costs and what the costs  
23     are of handling this mail.

24           Whenever any of the products in this new  
25     saturation subclass are taken directly to the street

1 as extra bundles, they -- our assumption is they use  
2 no in-office labor whatsoever. We had testimony  
3 yesterday about how there may be a little, but in any  
4 event, we're going to assume there's zero in-office  
5 costs --

6 A Okay.

7 Q -- for these pieces, and that shouldn't be  
8 too far off from the real world. And let's talk about  
9 what happens where any of the saturation mail cannot  
10 for one reason or another be taken to the street  
11 directly as a third bundle. It has to be handled some  
12 other way. And we've got the three products. We've  
13 got letters and flats and we've got flats with DALs,  
14 unaddressed flats with DALs. So let's talk about  
15 each.

16 For letters, we're going to assume the only  
17 option is backhauling to the plant, as Mr. Lewis has  
18 talked about, and DPSing it, and when you do that, the  
19 transportation and the DPS costs are 2 cents for the  
20 letter. For the addressed flats, the --

21 A So you said backhauled for DPSing?

22 Q Backhaul it to the plant, DPS it, bring it  
23 back, so that is the alternative for -- the only  
24 option we're positing for letters.

25 A That have always done the letters, that's

1 right?

2 Q No, no, no.

3 A Oh.

4 Q You either -- you either go to the street or  
5 the third bundle.

6 A Oh, okay.

7 Q Or I'm saying if you can't, for some reason  
8 you can't do it, then the thing you have to do is DPS  
9 it.

10 A Okay. Okay.

11 Q Again, it's just trying to kind of come up  
12 with these assumptions, simplifying assumptions.

13 For addressed flats, the principal option is  
14 to case it in a vertical flats case. Sometimes you  
15 might take two bundles and collate them, but let's --  
16 let's assume that if it's cased or collated that the  
17 cost there is 5 cents. Letters 2 cents, addressed  
18 flats 5 cents. We're just making these numbers up.  
19 It's not that important what the numbers are until we  
20 get to the end.

21 A Sure.

22 Q Then you --

23 A That I'm sure of.

24 Q Then you'll see. And then we have the  
25 unaddressed flats or the wraps with the, you know,



1 with the detached --

2 A Uh-huh.

3 Q -- address label, that this -- you know,  
4 that because these are harder to case, as we've talked  
5 about, it takes more time to case it and such, you  
6 have to case the DAL, you have to case the wrap, we've  
7 done some tests and we're going to come up with a  
8 number for -- of 12 cents to case those.

9 A And that's to case both pieces?

10 Q Both pieces.

11 A Okay.

12 Q Yes. Now, to keep this in all mind, I've  
13 got another handout if I can find it.

14 A Thank you.

15 (Brief pause.)

16 BY MR. OLSON:

17 Q When you -- I guess you've had a chance to  
18 look at it. It doesn't have very much more than what  
19 we just discussed. It specifies the annual volume of  
20 each of the three products in the new subclass. Do  
21 you see that?

22 A I've got it. Mm-hmm.

23 Q And then it uses the word "bypass," and  
24 that's our word.

25 A Okay. Got it.

1 Q Okay?

2 A Yes.

3 Q That's for the mail taken directly to the  
4 street. And maybe we can affect postal jargon for the  
5 future in this case.

6 A Okay.

7 Q And then we want to -- we specify the unit  
8 costs of the alternative method of -- if it's not  
9 bypassed, the alternative method is 2 cents, 5 cents,  
10 12 cents.

11 A When you say "unit costs," is that the cost  
12 of casing, literally, the casing cost per piece? Is  
13 that what you mean by "unit costs"?

14 Q Casing with respect to the flats or -- or --

15 A I didn't -- I wasn't saying anything but  
16 that.

17 Q But the letters -- remember the office --

18 A The cost of handling the piece in the  
19 office. Is that what you mean, "unit costs"?

20 Q Well, it's -- it's not just in the office --

21 A Oh.

22 Q -- because if it's back -- if a letter is  
23 backhauled to the plant, it's also the cost at the  
24 plant.

25 A Oh. So it includes mail -- mail processing

1 costs?

2 Q Well, it's got that component of it, yes.

3 A Okay.

4 Q It's the cost -- it's the -- if it's not  
5 taken directly to the street, we're trying to come up  
6 with three numbers of the alternative method to taking  
7 it to the street. For letters, it's getting it back  
8 to the plant, DPSing it. For addressed flats, it's  
9 casing it or collating it, either -- either way.

10 A Sure.

11 Q Same price, we're assuming. And then for  
12 the unaddressed flats and the DALs, we're assuming 12  
13 cents. Okay? So that -- do you get that in mind?

14 A I just want to make sure I understood the  
15 dis --

16 Q Okay.

17 A For example, in the case of -- no pun  
18 intended -- but in the case of letters, this would be  
19 the cost of casing one letter.

20 Q No, sir.

21 A No?

22 Q It would be DPSing it.

23 A Oh, no, you're not casing those. You're  
24 DPSing. I'm sorry.

25 Q Right.

1           A     So this would be the entire cost of getting  
2     it back to the plant, running a machine, getting it  
3     back here, boom. In the case of flats, it would be  
4     then how much it costs the Postal Service either to  
5     case or collate, whatever you assume.

6           Q     Mm-hmm.

7           A     Got it. Okay. Oh, okay. So you're  
8     assuming it costs 7 cents to case a letter, if I  
9     understand the 12.

10          Q     Well, because if you have a -- well,  
11     actually, here's how it came from -- I mean, you have  
12     two pieces you're casing --

13          A     Right.

14          Q     -- first of all with the unaddressed wrap.  
15     You're casing, you know, this thing.

16          A     Right.

17          Q     And you're casing this thing, and we're just  
18     operating on the assumption it's perhaps hard --  
19     harder to case something like this. I'm not trying to  
20     prove any of these points. I'm trying to just get the  
21     hypothetical out there.

22          A     Okay.

23          Q     So --

24          A     Go ahead. I -- at least I understand it.

25          Q     Right.

1           A     I was just thinking if it's 5 cents for an  
2     addressed flat and then it's 12 cents for a flat and a  
3     DAL -- or, I mean, it must be 7 cents for the letter.  
4     I guess of course, you could say well, the unaddressed  
5     flat could be different than the addressed flat.

6           Q     Well, I think the concept --

7           A     Cheaper, right?

8           Q     Yes.

9           A     Okay.

10          Q     That's exactly it.

11          A     Okay. Because it's not -- it's not -- you  
12     can just stick them all?

13          Q     Yes.

14          A     Okay. Sorry. Go ahead.

15          Q     They're loose and that sort of thing.

16          A     I got ya. Mm-hmm. Go ahead.

17          Q     Okay. So, because the Postal Service and  
18     the city carriers know that unaddressed flats and the  
19     DALs are a major project to case with -- with  
20     significant costs, we're assuming that that's sort of  
21     the last thing that they want to do, so a hundred  
22     percent of the time, a -- an unaddressed flat with a  
23     DAL are taken directly to the street.

24          A     This is an assumption you're making?

25          Q     It's an assumption.

1           A     Okay.

2           Q     This is how city carriers are actually  
3 handling this mail. This is in our construct of the  
4 new saturation subclass. Okay?

5           A     Okay.

6           Q     The addressed flats aren't quite as  
7 fortunate because, when there's a crunch between --  
8 I'll use the word "crunch" instead of one of the other  
9 words for --

10          A     Yes, I got it. Okay.

11          Q     -- between the unaddressed and the addressed  
12 flats, they prefer to take the unaddressed flats to  
13 the street, so if in this hypothetical the addressed  
14 flats we're assuming 80 percent of the time are taken  
15 directly to the street, 20 percent of the time get --  
16 I guess you didn't like the word "get bumped," but  
17 I'll use it -- maybe 20 percent get bumped and have to  
18 be cased. Okay. That's that assumption.

19          A     Okay.

20          Q     And I'll -- I'll give you a sheet on this  
21 one, too, in a second, but letters is somewhat  
22 difficult -- different than those. Sometimes on some  
23 routes and certain days, there's too much saturation  
24 mail, just as occurs with flats, and in addition,  
25 supervisors are always faced with the possibility that

1 we heard about from Witness Lewis that saturation flat  
2 mailings may turn up in the future, and so they may  
3 choose to DPS the letters as a contingency as against  
4 the possibility of getting another flat mailing.

5 So here's -- here's what the result is of  
6 that, that saturation letters are DPSed 80 percent of  
7 the time and taken to the street 20 percent of the  
8 time, sort of the flip side of the -- of the addressed  
9 flat assumption, okay?

10 And to keep all that straight, we've got  
11 another handout which has those numbers in it. Do you  
12 see that on this cross-examination, Exhibit 2? I  
13 didn't actually number the first one I handed out but  
14 we will get there. Maybe that will be --

15 A Put zero.

16 Q Well, that's a good idea if we could call  
17 that BTXE 0. I knew a mathematician would have a  
18 solution to that.

19 In the right-hand columns, we have added the  
20 new information. I have asked you to assume that the  
21 letters are by-by-passed 20 percent of the time; the  
22 address flats 80 percent; and the unaddressed flats  
23 100 percent.

24 A Okay.

25 Q So that is consistent with what we have

1 discussed so far?

2 A Okay.

3 Q Now, we want to complete the unit cost of  
4 this mail. It is mostly in-office, but, as I said,  
5 there is a little plant cost here because of the  
6 DPSing. And since the by-pass mail has zero cost  
7 because it doesn't use any -- that is our assumption:  
8 it is not using any in-office; it is not tallied. It  
9 goes right to the street.

10 I am going to ask you to agree with me and  
11 assume that the in-office unit cost of the cost of  
12 mail that goes right to the street is zero, and we are  
13 just going to talk about the in-office cost of the  
14 other mail, if that is okay? Because if it goes  
15 directly to the street, the in-office cost is zero.

16 A That is your assumption?

17 Q Yes.

18 A Okay, that is your assumption.

19 Q Now, based on the numbers in cross-  
20 examination, Exhibit 2, do you have a method by which  
21 we could complete the in-office cost, let's say of  
22 letters?

23 A Well, I would want to think about: the  
24 process that we are assuming, what the operational  
25 structure was, how the costs are incurred, how we



1 would go about collecting that information. So I  
2 wouldn't say no. In, you know, five seconds, I have  
3 thought through how one would calculate the costs  
4 associated with this complicated example. But, of  
5 course, --

6 Q It is not really a test. Let me just  
7 suggest if you could comment on the wisdom of taking  
8 the two-cent unit cost, and saying that 80 percent of  
9 the time, it is DPS that that cost would be incurred  
10 80 percent of the time, so the unit cost would be .016  
11 cents, two-tenths of a cent. I'm sorry two cents  
12 times 80 percent.

13 A Right.

14 Q So we had four billion pieces of mail,  
15 right?

16 A Yes.

17 Q And each one of them incurred a cost of two  
18 cents, if it's DPS --

19 A Oh, but --

20 Q You said 80 percent of the four of IT was  
21 DPS?

22 A Eighty-percent of the letters are DPS, so,  
23 the unit cost, I think it would be the two cents times  
24 80 percent because 80 percent of the pieces are DPS.

25 I have to think about it. I am not quite

1     sure. I really am going to think about the whole  
2     example and think through how one should go about  
3     doing costing in this scenario. I am not quite sure  
4     that I am ready to jump off the cliff and say yes or  
5     no, to be honest with you.

6           Q     Well, I guess the assumption we are making  
7     there is that if we know the unit cost to DPS, one  
8     piece is two cents, and we know that if 80 percent of  
9     the pieces are DPSed, that the unit cost is going to  
10    be 80 percent of the two cents.

11          A     Well, I would say this: If one had a system  
12    by which one could calculate the total in-office cost  
13    for handling letters, okay, and I am not sure exactly  
14    how we are going to get that. But one could find --  
15    if you define the volume-variable cost associated with  
16    handling those letters.

17                If I wanted to find the volume-variable cost  
18    per piece, per what I call our WTs (ph), that would  
19    require thinking about two things: One, how variable  
20    is that total cost? And then, two, how is that cost  
21    associated with the changes in the volumes of the  
22    letters?

23                Another thing, too, a little bit about -- I  
24    guess my experience with these things is that one  
25    needs to be a little bit careful with just applying

1 percentages. Sometimes one needs to think through:  
2 Are these percentages capturing rates of change  
3 really, or exactly what? So I understand the  
4 intuitive person saying: Well, quickly, one says wait  
5 a minute. It's 80 percent, 20, eight times 216. But  
6 my experience in this is that one should be a little  
7 more cautious and think it through more carefully, so  
8 I guess I am just not ready to say yeah.

9 Q Okay. Well, I want to proceed, with that  
10 caveat noted, as to how we constructed this  
11 hypothetical because we really haven't gotten to the  
12 tough part yet.

13 A Not yet --

14 Q You will see that, with respect to the  
15 addressed flat, remember we had a five-cent unit cost  
16 of casing or collating, and we are assuming that only  
17 20 percent get cased or collated, so that by  
18 multiplying the nickel by the 20 percent, we get a  
19 penny. At least you follow the math?

20 A I do, I do.

21 Q Okay.

22 A The first one was 1.6 cents, right?

23 Q Yes.

24 A The second one was 1.0 cents, right?

25 Q Yes.

1 A And the third one is?

2 Q Well, it's a hundred percent of the --

3 A Zero.

4 Q Yes, zero, right. They are never cased;  
5 they are never DPSed.

6 A Okay.

7 Q Okay, so those numbers are set out here.

8 A It certainly seems like a test.

9 Q We are going for a record.

10 (Pause)

11 Okay, this is cross-examination, Exhibit XE-  
12 3, and has the calculation on column 6, which we  
13 discussed, which you have reservations about, correct?

14 A Right.

15 Q Okay. Now, one of the difficult aspects, I  
16 guess, of developing unit costs is that ordinarily we  
17 do that at the end rather than make it an assumption.

18 A We don't know them before we start?

19 Q Right, yes, and I am assuming we had the  
20 information we needed to develop that unit cost and --

21 A That did occur to me.

22 Q Right, right, okay. So that is one of the  
23 wrinkles of hypotheticals perhaps.

24 A Yes.

25 Q But do you think that the costs, the in-

1 office unit costs, and again when I say in-office, it  
2 involves DPSing, so I --

3 A Sure, I understand.

4 Q Do you think that those are, in order of  
5 magnitude, accurate? In other words, do you think  
6 that the errors might be small or they might be just  
7 completely wrong?

8 A I am not sure that I got the question. Did  
9 you ask me how big the errors are? Do you know,  
10 potentially?

11 Q Well, here is my question and it is not  
12 really a mathematical question.

13 A Okay.

14 Q It is sort of a policy question.

15 A Okay, fair enough.

16 Q Others ask the mathematical questions, but  
17 my -- if we are assuming that the unit cost of DPSing  
18 a letter is two cents, and that 80 percent of them are  
19 DPSed, and then we came to this rough number of 1.6  
20 cents and you had some questions about it, and you  
21 raised some interesting points about how these are  
22 calculated, I am asking you whether your objection to  
23 the 1.6 number is that it could be half as much or  
24 twice as much, or that it could be off by 10 percent?

25 Is there any way that you can quantify the

1 degree to which you think that it might be off the  
2 mark, depending on different circumstances?

3 A No, not until I have done the analysis.

4 Q Okay.

5 A It's an uncertainty.

6 Q Okay, then I guess that I am going to have  
7 to make an assumption. Let's say that we do the  
8 analysis --

9 A Okay, fair enough.

10 Q -- and these are the numbers that you come  
11 up with.

12 A Okay.

13 Q Now --

14 A It's eight bucks we are getting into, but --  
15 okay, fair enough. There are ways to get out later  
16 so.

17 Q In the far right-hand column then, would you  
18 think that it would be fair to describe those costs as  
19 unit-volume-variable in-office costs?

20 A Yes, in the Postal context, yes.

21 Q Okay.

22 A Unit-volume-variable, in-office unit-volume-  
23 variable costs.

24 Q And reading through just the text, if not  
25 the formulas of your testimony, and based on a very

1 feeble understanding of what you are getting at, I  
2 think you have rather vigorously proved that unit-  
3 volume-variable in-office costs are also marginal in-  
4 office costs?

5 A Yes.

6 Q Okay. So could we refer to these costs as  
7 marginal in-office costs?

8 A Well, I would say that they are the right  
9 numbers. But assuming that they were, I think what  
10 you are trying to get is the marginal cost of volume.  
11 What is the additional costs to the Postal Service of  
12 getting more letters, at six cents? Additional in-  
13 office costs, excuse me, additional in-office costs  
14 but letters are 1.6 cents. The flats are 1.0 cents,  
15 and addressed flats are down to zero.

16 Q And let's take the assumption one step  
17 further and just assume that every one of these had a  
18 street time marginal cost of two cents, whether it is  
19 a letter, flat or other piece, if you can keep that in  
20 mind also.

21 A Do you have another piece of paper for me?

22 Q Yes, sir. How did you know? I'm giving  
23 away my notes to opposing counsel. Something about  
24 that arrangement is unusual.

25 A Thank you.

1           Q     All we have done there is add Columns 7 and  
2     8, 7 being Street Time, two cents, irrespective of  
3     product; and then calling Column 7: Total Marginal  
4     Costs.

5           A     I see.

6           Q     Okay. I believe somewhere that you said  
7     that something to the marginal cost of each activity  
8     of a product gives you total marginal costs, right?

9           A     Yes.

10          Q     And let's take a look at Column 8 and just  
11     realize that that is the sum of Columns 6 and 7. So,  
12     6 being in-office unit costs; 7 being street time  
13     marginal costs; and 8 being total marginal costs, so  
14     that is clear, correct?

15          A     All right.

16          Q     Okay. Now all the mail in this saturation-  
17     mail subclass, the saturation subclass, is delivered  
18     to you and the only attributable cost the Postal  
19     Service incurs is either for in-office time or it's  
20     street time. Would you agree with that?

21          A     Okay.

22          Q     Okay. And within the constraints of this  
23     hypothetical, on the assumptions of this hypothetical  
24     that the total marginal costs in Column 8 reflects how  
25     costs are actually being incurred in light of actual



1 operating procedures --

2 A Okay.

3 Q In your testimony, too, a phrase like that.

4 A Okay.

5 Q And haven't economists generally recommended  
6 that marginal costs be used for pricing decisions?

7 A Yes.

8 Q Okay. When we take this hypothetical one  
9 last step --

10 A Okay.

11 Q If you're ready and assume that because  
12 these products have such low marginal costs, a  
13 commission, not this Commission, but some commission  
14 were to set a coverage on this product of 500 percent,  
15 and that would mean, would it not, that we would have  
16 rates that are equal to five-times the costs in the  
17 last column?

18 A I see you are going to your folder again,  
19 so, okay.

20 Q However, I think this is the final --

21 A Oh, good.

22 Q -- exhibit.

23 MS. MCKENZIE: Would you like to hand me  
24 some more of your notes, Mr. Olson?

25 MR. OLSON: Thank you.

1 BY MR. OLSON:

2 Q This is where that hypothetical commission  
3 imposed the 500-percent coverage. So, in Column 10,  
4 the rates are as shown, based on a coverage based on  
5 the marginal costs in row 8. Do you see that?

6 A Okay. So it is roughly five times really --  
7 Column 8 rather.

8 Q Right, or exactly.

9 A Okay.

10 Q I think so.

11 A Around in there, perhaps. Okay, I've got  
12 it.

13 Q Okay. And since we have just been adding  
14 columns to the same sheet, you have in mind the whole  
15 hypothetical at this point?

16 A As best I can, yes.

17 Q And assuming that mailers respond to  
18 differences in rates, then, from the Postal Service's  
19 perspective, in your opinion, do you believe that the  
20 rates in Column 10 send the correct signals to  
21 mailers?

22 A I don't do rates. This is way beyond what I  
23 do. I do costs, so I don't make judgments as to  
24 whether rates are fair or not.

25 Q Well, if we assume that a 500-percent

1 coverage is fair, and that that is the proper way to  
2 design rates, would you have a problem if the Postal  
3 Service's rate-design people were to take your  
4 marginal costs and recommend these rates?

5 A I am not a rates person. I don't deal with  
6 what is right or wrong in terms of rates. I produced  
7 costs, so I don't really feel comfortable answering  
8 questions about rates.

9 Q Well, one of the reasons that you, I guess,  
10 work for the Postal Service is to have them develop  
11 marginal costs, correct?

12 A Yes, sir, that is right.

13 Q Okay. And as an economic principle, you are  
14 doing that not totally behind a curtain, but with the  
15 understanding that there are going to be rates  
16 developed for marginal costs, correct?

17 MR. KOETTING: Mr. Chairman, I think the  
18 witness has already indicated that the scope of his  
19 testimony, and I believe he has been about as  
20 cooperative as one could reasonable expect, is limited  
21 to costing. And Mr. Olson was trying to get him to  
22 make the leap from costing to pricing, and he has  
23 already indicated that that is beyond the scope of his  
24 testimony. And I would reiterate that the Postal  
25 Service would object to questions that move beyond the

1 scope of his testimony.

2 CHAIRMAN OMAS: Move on, Mr. Olson, please.

3 MR. OLSON: Mr. Chairman, let me just -- if  
4 I could just fire off one more question, that he did  
5 give me a positive answer.

6 BY MR. OLSON:

7 Q To which, as an economist, when you said  
8 that marginal costs are preferred for use in pricing  
9 decisions, correct?

10 A I hope I said that marginal costs are used  
11 as the basis for pricing decisions.

12 Q Then what would the difference between those  
13 two points be?

14 A Well, preference seems to indicate a  
15 comparison amongst other costs, and I didn't know what  
16 we were comparing with.

17 Q So would it be your testimony, then, today,  
18 that your role is to help the Postal Service develop  
19 accurate marginal costs rather than to have any role  
20 in assessing or recommending how those costs, or  
21 whether those costs are used in rate making?

22 A My testimony is associated with trying to  
23 accurately measure costs. It does not address rate  
24 making at all.

25 Q That's right. And it doesn't

1 address -- I take it you are saying, the suitability  
2 of the costs you develop for rate making?

3 A I don't believe I did get into that, no.  
4 No, I don't believe I talked about that in my  
5 testimony, no.

6 Mr. OLSON: Thank you, Mr. Chairman, that is  
7 all I have.

8 CHAIRMAN OMAS: Thank you Mr. Olson.

9 All right, are there are questions from the  
10 bench? Commissioner Goldway?

11 COMMISSIONER GOLDWAY: I don't want to  
12 belabor this point. I assume because, intuitively, it  
13 seems to me, we have more pieces that are two pieces  
14 and not one piece. And letters that, unlike the rest  
15 of the letter system, so as to be normal and it is  
16 easier to handle. I can't quite get why the other  
17 pieces are less expensive except that, you know, the  
18 person can just carry the piece along with him at the  
19 end, nut that is only the loose pieces not the DOW  
20 (ph).

21 So I don't quite get how we came up with  
22 lower costs for the two-for-one, instead of all the  
23 covered econometrics, which we have all the time.

24 The other question I have for you --  
25 (multiple voices)

1           THE WITNESS: I don't know that the -- at  
2     least the econometrics that I did really get to that  
3     issue per se. You know I didn't look at one-piece  
4     versus two-piece mailings. There was nothing in the -  
5     -

6           COMMISSIONER GOLDWAY: You were just looking  
7     at the statement issue, right?

8           THE WITNESS: When more mail goes to the  
9     street, how much does the cost go up?

10          COMMISSIONER GOLDWAY: Okay. So, with  
11     regard to the displacement issue, here is my question.  
12     It is sort of related, I think: Is there some economic  
13     value to the Postal Service that they are handling  
14     letters that can be DPSed as an option, as opposed to  
15     the other type pieces which cannot be DPSed? There is  
16     no alternative except to carry them on the street and  
17     to encase the dial because the dial can't go through  
18     the machine.

19          THE WITNESS: Hm-mmm.

20          COMMISSIONER GOLDWAY: So what is the  
21     economic benefit to the Postal Service to have a  
22     product that is more flexible, that they can do more  
23     things with, in their system?

24          THE WITNESS: Again, as a general matter, I  
25     think that it would be something that -- because it is

1 a service industry --

2 COMMISSIONER GOLDWAY: (no verbal response)

3 THE WITNESS: -- and they can't plan their  
4 production. They react to what they get -- a product  
5 that is delivered to them that allows them to handle  
6 that in many different ways, probably has two  
7 advantages for them. One, they can figure out a  
8 least-cost way of doing it amongst the various  
9 alternatives; and two, I think it helps them with  
10 their goal of meeting their delivery standards.  
11 Because, in periods of stress, they can use these  
12 alternative technologies to get the job done. I think  
13 probably, from two perspectives, it would be useful  
14 for them.

15 COMMISSIONER GOLDWAY: Is there a way to  
16 measure that in terms of costs, so you can factor that  
17 in?

18 THE WITNESS: I am sure there must be, but  
19 it is a complex problem. I would love to be able to  
20 say: Oh, yes, if you just do A, B and C. It is  
21 complex because, as your intuition suggests, it  
22 depends upon the circumstances the Post Office rate is  
23 in and how they make decisions within those  
24 circumstances. So one would need to think a good bit  
25 about the operating procedures they come up with in

1 reaction to that, but it is a complex question.

2 COMMISSIONER GOLDWAY: Okay. Well, thank  
3 you, I appreciate at least the discussion of it.

4 MR. OLSON: Mr. Chairman, before I forget,  
5 could I ask that our exhibits be transcribed not as  
6 evidence but just to clarify the record?

7 CHAIRMAN OMAS: Without objection, so  
8 ordered.

9 (The document referred to was  
10 transcribed into the record.)

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XE-0

### **Saturation Mail Subclass Hypothetical – Assumptions**

1. There is a **separate subclass** that is limited to and is exclusively for **saturation mail**, and all saturation mail in this subclass must be prepared by the mailer in **carrier walk sequence**.
2. In this saturation subclass, the Postal Service offers only **three products**, and each product is costed and priced separately:
  - saturation letters,
  - saturation addressed flats, and
  - saturation unaddressed flats accompanied by DALs.
3. **Each product** and all mail in this subclass “qualifies” — or is “**eligible**” — to be taken out on city carrier routes as **extra bundles**.
4. For **city carrier** routes alone the **annual volume of each of the three products is 4 BILLION**. Saturation subclass **total volume** for city carrier routes is **12 BILLION**.
5. All saturation mail **must be entered at the DDU**, so none of the three products have any “upstream” costs such as transportation, unloading, or cross-docking associated with them.
6. Each saturation mail piece weighs **less than 3.3 ounces**.

Valpak XE-1 (Bradley rebuttal)

## HYPOTHETICAL SATURATION SUBCLASS

Product	(1) Annual Volume (billions)	(2) In-office Bypass	(3) Unit Costs DPS'd or Cased
	-----	-----	-----
1. Letters	4.0	0	\$0.02
2. Addressed Flats	4.0	0	\$0.05
3. Unaddressed Flats & DALs	4.0	0	\$0.12

Valpak XE-2 (Bradley rebuttal)

HYPOTHETICAL SATURATION SUBCLASS

Product	(1)	(2)		(3)	(4)		(5)
	Annual Volume (billions)	In-office Unit Costs		DPS'd or Cased	Percent of Volume: That is		DPS'd or Cased
		Bypass			Bypass		
1. Letters	4.0	0		\$0.02	20%		80%
2. Addressed Flats	4.0	0		\$0.05	80%		20%
3. Unaddressed Flats & DALs	4.0	0		\$0.12	100%		0%

**HYPOTHETICAL SATURATION SUBCLASS**

<b>Product</b>	<b>(1) Annual Volume (billions)</b>	<b>(2) In-office Bypass</b>	<b>(3) Unit Costs DPS'd or Cased</b>	<b>(4) Percent of Volume Bypass</b>	<b>(5) DPS'd or Cased</b>	<b>(6) In-Office Unit Cost</b>
	----	----	----	----	----	----
1. Letters	4.0	0	\$0.02	20%	80%	\$0.016
2. Addressed Flats	4.0	0	\$0.05	80%	20%	\$0.010
3. Unaddressed Flats & DALs	4.0	0	\$0.12	100%	0%	\$0.000

## HYPOTHETICAL SATURATION SUBCLASS

Product	(1) Annual Volume (billions)	(2) In-office Bypass	(3) Unit Costs DPS'd or Cased	(4) Percent of Volume Bypass	(5) Percent of Volume DPS'd or Cased	(6) In-Office Unit Cost	(7) Street-time Marginal Cost	(8) Total Marginal cost
	-----	-----	-----	-----	-----	-----	-----	-----
1. Letters	4.0	0	\$0.02	20%	80%	\$0.016	\$0.02	\$0.036
2. Addressed Flats	4.0	0	\$0.05	80%	20%	\$0.010	\$0.02	\$0.030
3. Unaddressed Flats & DALs	4.0	0	\$0.12	100%	0%	\$0.000	\$0.02	\$0.020

## HYPOTHETICAL SATURATION SUBCLASS

Product	(1) Annual Volume (billions)	(2) In-office Bypass	(3) Unit Costs DPS'd or Cased	(4) Percent of Volume Bypass	(5) Percent of Volume DPS'd or Cased	(6) In-Office Unit Cost	(7) Street-time Marginal Cost	(8) Total Marginal cost	(9) Coverage	(10) Rate
1. Letters	4.0	0	\$0.02	20%	80%	\$0.016	\$0.02	\$0.036	500%	\$0.18
2. Addressed Flats	4.0	0	\$0.05	80%	20%	\$0.010	\$0.02	\$0.030	500%	\$0.15
3. Unaddressed Flats & DALs	4.0	0	\$0.12	100%	0%	\$0.000	\$0.02	\$0.020	500%	\$0.10

1 CHAIRMAN OMAS: Are there any other  
2 questions from the bench?

3 (No audible response.)

4 There being none, Mr. Koetting, would you  
5 like some time with your witness?

6 MR. KOETTING: I would, Mr. Chairman, I  
7 would like about five minutes.

8 CHAIRMAN OMAS: Okay, fine.

9 MR. KOETTING: I have one question, Mr.  
10 Chairman, and I don't even know if it is really re-  
11 direct or not. But Mr. Costich had some questions of  
12 Dr. Bradley, including a citation to an article, and I  
13 don't believe that that was identified for the record.  
14 That is all we had, Mr. Chairman, thank you.

15 CHAIRMAN OMAS: Thank you, Mr. Koetting.

16 Dr. Bradley, that completes your testimony  
17 here today. We appreciate your appearance and your  
18 contribution to the record. You are now excused.

19 Ms. McKenzie, would you please identify your  
20 next witness.

21 MS. MCKENZIE: The Postal Service's next  
22 witness is James M. Kiefer. I was wondering, though,  
23 Mr. Chairman, if we could take a break. We didn't  
24 have a formal break.

25 CHAIRMAN OMAS: I'm sorry. That's right. I

1       meant to do that. I am just getting so excited.

2               (Laughter)

3               Thank you. We will take a ten-minute break  
4       and we will be back at ten after.

5               MS. MCKENZIE: Thank you.

6               (Whereupon, a short recess was taken.)

7               CHAIRMAN OMAS: Ladies and gentlemen, would  
8       you please be seated. I am afraid that we will have a  
9       buzzer soon. Thank you.

10              Ms. McKenzie?

11              MS. MCKENZIE: Thank you, Mr. Chairman. The  
12       Postal Service calls James M. Kiefer.

13              WHEREUPON,

14                      JAMES M. KIEFER

15              having been duly sworn, was called as a  
16       witness and was examined and testified as follows:

17                              (The document referred to was  
18                              marked for identification as  
19                              Exhibit No. USPS-RT-1.)

20                      DIRECT EXAMINATION

21              BY MS. MCKENZIE:

22              Q     Dr. Kiefer, before you is a document  
23       entitled: Rebuttal testimony of James M. Kiefer on  
24       behalf of the United States Postal Service, marked as  
25       USPS-RT-1. Was this document prepared by you or under



1 your supervision?

2 A It was.

3 Q Does it include the rider to your testimony  
4 that was filed on September 14, 2005?

5 A Yes, it does.

6 Q Do you have any additions to your testimony?

7 A I have no additions, but I have a typo to  
8 correct in addition to the ones that were filed as a  
9 rider on September 14th. I have -- the item in  
10 question is: a citation on page 13 to the indented  
11 quote. The correct citation would be: USPS/T1-5. I  
12 have made these corrections to the two copies that I  
13 have here, in pencil and pen.

14 Q Thank you. If you were to testify today,  
15 would this be your testimony?

16 A Yes, it would.

17 MS. MCKENZIE: Mr. Chairman, the Postal  
18 Service moves that the rebuttal testimony of James M.  
19 Kiefer, on behalf of the United States Postal Service,  
20 marked as USPS-RT-1, be moved into evidence.

21 CHAIRMAN OMAS: Without objection?

22 (No audible response.)

23 Hearing none, I direct counsel to provide  
24 the reporter with two copies of the corrected direct  
25 testimony of James M. Kiefer. That testimony is

1 received into evidence and is to be transcribed into  
2 the record.

3 (The document referred as  
4 Exhibit No. USPS-RT-1, was  
5 received into evidence.)

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USPS-RT-1

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

REBUTTAL TESTIMONY  
OF  
JAMES M. KIEFER  
ON BEHALF OF  
THE UNITED STATES POSTAL SERVICE

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## **AUTOBIOGRAPHICAL SKETCH**

My name is James M. Kiefer. I am an Economist in Pricing and Classification, United States Postal Service. Since joining the Postal Service in 1998, I have worked on issues related to Package Services, Special Services, nonletter-size Business Reply Mail, Standard Mail and other pricing issues.

Prior to joining the Postal Service I worked for the Vermont Department of Public Service, first as a Power Cost Analyst, and later as a Planning Econometrician, where I investigated utility costs, rates, load forecasts and long-term plans. I also developed long range electric generation expansion plans for the State, performed economic impact studies, and contributed to a long-term energy use plan for Vermont. I have testified as an expert witness before the Vermont Public Service Board on many occasions on economic issues involving cost of power, generation expansion plans, least cost integrated planning, load forecasts, and electric utility rates.

Before working in Vermont, I was a Principal Analyst with the Congressional Budget Office. My past work experience also includes work with the U.S. Department of Commerce and work in production management in private industry.

I earned a BA in Chemistry from the Johns Hopkins University, an MBA from Rutgers University, and an MA degree in International Relations from the Nitze School of Advanced International Studies. I then returned to Johns Hopkins in Baltimore to study Economics where I earned an MA in 1983 and a PhD in 1986.

I have provided testimony before the Postal Rate Commission previously in Docket No. MC99-1, Docket No. MC99-2, Docket No. R2000-1, Docket No. R2001-1, Docket No. MC2002-1 and Docket No. MC2003-2.

1       **I.       PURPOSE**

2           The primary purpose of this testimony is to refute several contentions  
3       made in the testimony of Robert W. Mitchell on behalf of Valpak Direct Marketing  
4       Systems, Inc. and Valpak Dealers' Association, Inc. (ValPak).

5           Mr. Mitchell's testimony contends that a failure to establish a formal  
6       "logical" causal link between the Postal Service's escrow obligation and the test  
7       year deficit establishes some kind of legal impediment that prevents the  
8       Commission from recommending it. Mr. Mitchell also contends that the Postal  
9       Service's policy choices that led to its rate and fee proposal are not a sufficient  
10      basis for the proposal and cannot form an appropriate factor for the Commission  
11      to consider in recommending rates. My testimony demonstrates that both of  
12      these contentions are false: the Postal Reorganization Act (Act) does not require  
13      any demonstration of an escrow-deficit linkage before the Board of Governors  
14      can propose, and the Commission consider and recommend, a request for  
15      changes in rates and fees. I also show that there are no restrictions in the Act to  
16      prevent the Commission from considering the Postal Service's policy reasons,  
17      which are clearly spelled out in record evidence, as a sufficient basis to  
18      recommend its rate and fee proposals.

19           My testimony also rebuts witness Mitchell's contention that the Postal  
20      Services' settlement efforts somehow conflict with the Act's ratemaking process  
21      by demonstrating that the Postal Service has, while seeking settlement, met all  
22      the legal requirements of the Act and followed all procedural rules established by  
23      the Commission for managing rate cases. Furthermore, I point out that the



1 Commission's rules and past actions favor, rather than discourage, settlement  
2 efforts.

3         Witness Mitchell's testimony contends that the Postal Service cannot  
4 legally propose and the Commission cannot legally consider an across-the-board  
5 (ATB) rate change proposal. My testimony rebuts this contention, showing that  
6 there is no provision in the Act or the Commission's rules that prohibit such a  
7 proposal.

8         My testimony finally rebuts witness Mitchell's specific proposal that the  
9 ECR subclass be not given any rate increase by pointing out that the proposed  
10 rate level for ECR is not out of line with recent Commission decisions and that to  
11 reduce ECR's rates in this case would unfairly shift ECR's share of funding the  
12 escrow burden to other subclasses. I demonstrate that there is no reason to  
13 depart from the Postal Service's proposed rates for ECR in this case.

14         My testimony also addresses Dr. Haldi's concern about the collection of  
15 DAL data. It presents information that updates the Commission on the Postal  
16 Service's efforts to collect information on DAL's.

17

## 18         II.       INTRODUCTION

19

20         Congress has granted the Postal Rate Commission broad discretionary  
21 authority to develop ratemaking solutions that meet the needs of the nation.

22         Over the years, with this flexibility, the Commission has been able to  
23 accommodate omnibus rate change requests, as well as experimental rate and  
24 classification requests, and negotiated service agreements. The Postal

1 Reorganization Act (Act) gives the Commission the discretionary authority to  
2 address a broad range of different circumstances.

3 In this docket, the Postal Service has proposed increases in rates and  
4 fees to meet a Congressionally-mandated financial obligation to place funds in  
5 escrow during Fiscal Year (FY) 2006 and beyond. As explained below, and  
6 supported by the Postal Service's policy and pricing witnesses, the Postal  
7 Service's proposed across-the-board (ATB) increase is not typical of prior rate  
8 requests. This proposed pricing approach, however, is consistent with the  
9 ratemaking and other criteria of the Act. Repeatedly, the Commission has  
10 recognized that there is no single formulaic, mathematical or mechanical way to  
11 design rates, and that the Commission's recommendations must consider a  
12 broad range of often conflicting policy goals. Among the ratemaking factors  
13 enumerated in the Act, only the third (39 U.S.C. § 3622(b)(3) (attribution and  
14 assignment of costs)) is a "requirement." In this case, the Postal Service's  
15 proposed rates and fees meet this requirement. See USPS-T-27 at Exhibit  
16 USPS-27B.

17 Under the statutory scheme, balancing the remaining eight ratemaking  
18 factors in the Act requires that the Commission use its judgment to develop the  
19 most appropriate rate recommendations, given the unique circumstances of each  
20 case. Approaches used in prior dockets are often applied in subsequent  
21 dockets. However, in virtually every docket, the Commission is faced with new  
22 issues that require innovative solutions. In this docket, recovering the escrow  
23 obligation requires an innovative solution that a narrow focus on more typical

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1 costs and cost recovery cannot provide. In my opinion, the Commission has the  
2 discretion to craft such a solution, and the Postal Service's proposals in this case  
3 represent a reasonable balancing of the interests of all parties and all issues that  
4 should be adopted by the Commission. In contrast, as discussed below, the only  
5 participant in this docket to present an alternative proposal (ValPak) based its  
6 position on an extremely narrow focus on costs and cost coverages that is  
7 required by the Act and that unduly limits the Commission's discretion. This  
8 testimony addresses the most salient assertions made by Robert W. Mitchell  
9 (VP-T-1), testifying on behalf of Valpak.

10  
11 **III. WITNESS MITCHELL HAS ESTABLISHED NO RATEMAKING**  
12 **PRINCIPLES OR POLICIES THAT WARRANT REJECTION OF THE**  
13 **POSTAL SERVICE'S PRICING PROPOSALS**  
14

15 Mr. Mitchell has taken broad aim at the Postal Service's ATB pricing  
16 proposals. He challenges them on several legal and policy grounds.  
17 Fundamentally, he contends that they are inconsistent with the statutory scheme  
18 for postal ratemaking. As discussed below, I demonstrate why he is wrong.

19  
20 **A. The Postal Service's Request and Proposals Represent Sound**  
21 **Policy Choices For Meeting the Escrow Obligation Under**  
22 **Public Law 108-18**  
23

24 This case was filed as the result of a policy choice by the Board of  
25 Governors. For the first time ever in an omnibus postal rate case, the  
26 Postmaster General testified to explain the Board's policy decision. Mr. Potter  
27 stated:

28 The Postal Service's decision to seek changes in postal  
29 rates and fees at this time represents a policy judgment about the

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1 most reasonable, practical, and effective way to meet a currently  
 2 unavoidable financial obligation in Fiscal Year 2006. Otherwise,  
 3 the Postal Service would not have filed this request now.  
 4  
 5 USPS-T-1, p. 2. He explained that the financial obligation to be met was the  
 6 requirement to place approximately \$3.1 billion annually in escrow beginning in  
 7 Fiscal Year (FY) 2006, as the result of Public Law (PL) 108-18. He also  
 8 summarized the thinking that led to the Postal Service's proposed ATB pricing  
 9 approach. He stated:

10 We have determined, however, that acting now to secure the funds  
 11 needed through moderate rate and fee increases would be  
 12 responsible stewardship. In particular, while appropriately  
 13 spreading the burden to all postal customers, this approach creates  
 14 the prospect of encouraging settlement of issues among usually  
 15 very contentious rate case participants. It is my hope that efforts to  
 16 settle this case will lead to an early Recommended Decision and  
 17 permit implementation early enough in 2006 to meet the lion's  
 18 share of the escrow obligation.

19  
 20 *Id.* p. 2-3.

21 **1. Formalistic Concepts Of Causation Do Not Restrict The**  
 22 **Postal Service Or The Commission In Postal**  
 23 **Ratemaking**  
 24

25 Testifying for Valpak, witness Mitchell attempts to sever the relationship  
 26 between the Board's policy and the Postal Service's proposal by erecting an  
 27 imaginary restriction in the Postal Reorganization Act (Act). Essentially, Mr.  
 28 Mitchell seems to contend that the Postal Service is not *entitled* to adopt a policy  
 29 and a pricing approach regarding the appropriate funding of a particular financial  
 30 obligation created by statute, because, under the Act and the Commission's rules  
 31 and practice, there is no basis for treating the escrow differently from any other

1 expense to be covered by rate and fee increases.<sup>1</sup> He, further, claims that “as a  
 2 matter of logic,” the nature of the escrow cannot be used as a justification for  
 3 pricing proposals, because a deficit cannot be “caused” by any particular  
 4 expense. Consequently, the escrow cannot “cause” the projected deficit in the  
 5 test year. *Id.* p. 10-11, Tr. 9/5276-77. He strongly suggests that these  
 6 conclusions stand as legal obstacles, not only to the Postal Service’s assertion of  
 7 the policy basis for its proposals, but also to the Commission’s consideration of  
 8 that policy basis as a justification for recommending particular rates and fees.

9       There is, however, no such legal restriction.<sup>2</sup> Quite simply, narrow  
 10 mathematical or “logical” issues of causation such as witness Mitchell raises do  
 11 not modify or restrict the statutory authority of the Board of Governors and the  
 12 Commission to consider the nature of particular expenses as an element of a  
 13 policy justification for particular rate and fee changes.<sup>3</sup> I know of nothing in the  
 14 Act or the Commission’s rules and practice, furthermore, that requires the Board  
 15 to prove causality (either formally or informally) as a justification for its proposals  
 16 or its policy decision to request a rate recommendation from the Commission. If  
 17 the Board believes that there are good policy reasons to request a rate increase

---

<sup>1</sup> Mr. Mitchell takes great pains attempting to establish that the Act and rules do not permit treating the escrow differently from any other expense, and, particularly, any other expense imposed by statute. VP-T-1, pp. 6-9, Tr. 9/5272-75.

<sup>2</sup> Mr. Mitchell’s argument is couched in terms of logic, although he seems to imply that it has roots in some accounting rule that restricts how deficits can be characterized. He does not cite such a rule, however; and I am not aware of one.

<sup>3</sup> Counsel for DMA and Mr. Mitchell sparred at length during hearings over the meaning of “causation,” as it applies to postal ratemaking. Tr. 9/5426-51. See *also*, responses to DMA/VP-T1-2, Tr. 9/5394-98, DMA/VP-T1-3, Tr. 9/5399-5400.

1 to fund the escrow (as opposed to borrowing, for example), it is empowered by  
2 the Act to do so. Nor is the Commission restricted from considering that  
3 justification in evaluating the Postal Service's Request.

4 In my opinion, there is nothing "illogical" about the relationship between  
5 the escrow and the Postal Service's proposals. The connection is clearly  
6 expressed in the Postmaster General's testimony. The Board chose to propose  
7 a rate increase as a means to fund the escrow requirement in FY 2006. In  
8 practice the Commission has limited proof of economic causation (most  
9 commonly, volume variability) to consideration of issues involving attribution and  
10 distribution of costs to particular subclasses of mail and services. Nevertheless,  
11 when assessing the sufficiency of specific prices or a pricing approach under its  
12 judgmental authority to recommend rates pursuant to 39 U.S.C. § 3622, as far as  
13 I know, the Commission has not interpreted the Act as establishing a barrier to  
14 considering a policy choice as the foundation for the Postal Service's proposals.

15 Mr. Mitchell strongly implies that his pronouncements are supported by the  
16 Act and the Commission's rules. Simple review of the statutory language,  
17 however, belies that claim. The Act authorizes the Postal Service to request rate  
18 recommendations as follows:

19 From time to time the Postal Service shall request the Postal Rate  
20 Commission to submit a recommended decision on changes in a  
21 rate or rates of postage or in a fee or fees for postal services, *if the*  
22 *Postal Service determines that such changes would be in the public*  
23 *interest and in accordance with the policies of this title. The Postal*  
24 *Service may submit such suggestions for rate adjustments as it*  
25 *deems suitable.*  
26

1 39 U.S.C. § 3622(a) (emphasis added). Nothing in the Act or Commission  
 2 practice, however, limits the Board's consideration of financial or other policy in  
 3 making any determination under that provision.

4 Perhaps more importantly, nothing in the Act restricts the Commission  
 5 from considering a Postal Service policy choice in evaluating its pricing  
 6 proposals. The Act provides that "the Commission shall make a recommended  
 7 decision on the request for changes in rates or fees in each class of mail or type  
 8 of service in accordance with the policies of this title and...[nine enumerated  
 9 factors, including] (9) *such other factors as the Commission deems appropriate.*"  
 10 39 U.S.C. § 3622(b)(emphasis added).

11 Nor do the Commission's rules dictate the restriction that Mr. Mitchell has  
 12 fabricated. Rather, the Commission's Rules of Practice and Procedure only  
 13 specify the information and explanations that the Postal Service must provide to  
 14 support its request for changes in rates and fees. See 39 C.F.R. §§ 3001.54(a) –  
 15 (q).

16 **2. There Is Clear Logical And Legal Support For The Postal**  
 17 **Service's Request And Pricing Approach.**  
 18

19 While Mr. Mitchell would limit the Commission's consideration of the  
 20 Board's policy decision in its evaluation of the Postal Service's proposals by  
 21 inserting his own rules into the statute, even as a logical matter, the policy and  
 22 the proposals are closely tied.<sup>4</sup> Mr. Mitchell does not dispute that the amount of

---

<sup>4</sup> Mr. Mitchell did agree that it is logically possible to link one class of expenses to deficits in a business context, but he qualified that concession to exclude the escrow.

1 revenue sought is limited to the approximate size of the escrow requirement.  
 2 See response to USPS/VP-T1-1. Surprisingly, however, he attempts to dismiss  
 3 this relationship as mere "coincidence." He states:

4 Except for the Postal Service's unusual decision to propose a  
 5 contingency level of zero, it seems purely coincidental that the  
 6 deficit of \$3 billion in the Test Year is approximately equal to the  
 7 escrow payment of \$3.1 billion.  
 8

9 VP-T-1, p. 9, Tr. 9/5275. He even tries to ignore the Postmaster General's clear  
 10 affirmation that the proposals represent a policy choice to fund the escrow. He  
 11 can only do this, however, by reinterpreting what the Postmaster General said,  
 12 rather than by taking him at his word. In elaborating his argument about deficits,  
 13 Mr. Mitchell states:

14 My *interpretation* of what he said is (i) absent the projection of a  
 15 deficit for FY 2006, this case would not have been filed, and (ii) a  
 16 reduction of approximately \$3.1 billion in any cost component or  
 17 any cost category or any group of costs, *including the escrow*  
 18 *payment* (as it just happens to be the right size), would bring about  
 19 a no-deficit projection.  
 20

21 See response to DMA/VP-T1-2(a)(emphasis added), Tr. 9/5394-95.

---

"I agree that situations exist where the man on the street would view it as a logical to say that a deficit was caused by some event. For example, suppose at a time of a balanced budget and smooth economic sailing, an earthquake destroyed the 12 bridges that were central to the city's economic functioning, and damaged some buildings as well. A deficit in the city's budget would occur. If it did, I am sure everyone would agree that it was caused by the earthquake. However, since the escrow payment is not something that occurred suddenly and unexpectedly, it is not clear that this example applies. All Congress did was say that payments made in the past would continue to be made, but would be put into a different pot, for a purpose to be designated."

See response to DMA/VP-T1-3(b), Tr. 9/5399



1           Furthermore, Witness Mitchell admits to the appropriate classification of  
2   the escrow costs as institutional, but he raises objections to identifying the  
3   escrow expenses as unqualified institutional costs. In this regard, he admits that  
4   the escrow expenses are not volume variable, but he argues that institutional  
5   cost is a residual classification, which is calculated by subtracting attributable  
6   costs from total costs, and that particular costs cannot be identified as  
7   institutional. See response to DMA/VP-T1-2(b), Tr. 9/5395-97.

8           Witness Mitchell's objections, however, are irrelevant and off-target. For  
9   purposes of ratemaking, his formalistic counter-examples and argumentation fail  
10   to address the implications of the fact that the escrow expenses are not volume  
11   variable. Under the Act, costs are either attributable or they are not. Whatever  
12   hesitancy Mr. Mitchell may have with labels -- whether the escrow is part of a  
13   "residual" or not, or whether it is defined legislatively as an operating expense or  
14   not -- the clear fact of the matter is that the escrow expenses are *not* attributable  
15   costs. Furthermore, to the extent they are regarded as *part of the pool of*  
16   institutional costs to be assigned, rather than attributed, the escrow expenses  
17   would fall under the Commission's authority to allocate institutional costs as a  
18   judgmental exercise, in accordance with section 3622(b). As Mr. Mitchell  
19   admitted to counsel for DMA,

20           [T]he institutional costs as a whole are distributed to  
21   the categories of mail according to the factors in the  
22   Act and the Commission's judgment.

23           I think the end of your question was whether or not the  
24   process requires some judgment. I would say yes, it does require  
25   some judgment. We have a Commission that exercises that  
26   judgment and explains the result when they issue an opinion.  
27

1 Tr. 9/5430-31.

2 It follows that there would be nothing inconsistent with the policies of the  
 3 Act, if the Commission were to evaluate the Postal Service's ATB proposals,  
 4 including the cost allocations that the proposed rates and fees imply, as part of  
 5 its judgmental assessment in the second stage of pricing under Section 3622(b)  
 6 of the Act. The first stage would be addressed by affirming that the attributable  
 7 costs established through the Postal Service's cost estimates for the test year  
 8 were covered by the proposed rates and fees. The Commission could then  
 9 evaluate the cost allocation implications of the proposed rates and fees by  
 10 considering the Postal Service's policy justification for ATB under subsection  
 11 3622(b)(9), along with consideration of the other factors enumerated in section  
 12 3622(b).

13 **3. The Commission May Consider The Practical**  
 14 **Circumstances Underlying The Board's Policy Choice In**  
 15 **Evaluating The Postal Service's ATB Proposals.**  
 16

17 *In discussing the Board's policy decision to seek funding of the escrow*  
 18 *requirement through ATB increases in rates and fees, the Postmaster General*  
 19 *explained that the ATB approach was taken, in part, because it was judged to be*  
 20 *the fairest, most practical means to adjust rates in a way that would facilitate*  
 21 *widespread acceptance through settlement. The Postmaster General stated:*

22 One compelling justification for this approach is the  
 23 likelihood that it will enhance the prospect for settlement of issues  
 24 in this proceeding, permit a more expeditious conclusion, and allow  
 25 the Postal Service to begin early in the calendar year 2006 to  
 26 generate the additional revenues necessary to meet the [escrow]  
 27 obligation. Moreover, early settlement will allow the Postal Service  
 28 and postal stakeholders to concentrate on prospective legislative  
 29 reform and return the pricing focus to issues such as appropriate

1 changes in the rate structure and alignment of institutional cost  
2 burden in the interim. In order to simplify this proceeding and to  
3 advance the prospect of settlement among as many parties as  
4 possible, the Board did not authorize the proposal of any  
5 classification changes in this docket.

6  
7 Witness Mitchell criticizes those elements of the Board's policy decision.

8 He states:

9 [A]dopting a particular rate approach in hopes of facilitating a  
10 settlement, rather than according to the requirements of the Act,  
11 simply is not appropriate ratemaking. Put another way, increasing  
12 the likelihood of achieving a settlement is not one of the non-cost  
13 factors of the Act. And arguments that the Postal Service has a  
14 financial interest in implementing rates a month or so sooner lack  
15 merit. The Postal Service has had full control over the timing of this  
16 case and it has known of the escrow requirement since P.L. 108-  
17 18 was enacted on April 23, 2003. Borrowing options are available  
18 to allow flexibility and to smooth things out over time. Neither a  
19 desire for settlement nor a hurry to realize increased revenue is a  
20 credible justification for an ATB approach.

21  
22 VP-T-1, p. 16, Tr. 9/5282

23 Thus, Mr. Mitchell challenges the appropriateness of considering the  
24 practical context giving rise to the Board's decision to propose ATB rate and fee  
25 increases as justification for that approach. Just as there is nothing in the Act  
26 that would prohibit consideration of the Board's financial policy objective to fund  
27 the escrow requirement, however, there is no basis for excluding consideration of  
28 timing and need for procedural expedition as integral elements of the Board's  
29 policy choice. Mr. Mitchell has pointed to no statutory language, rule, or  
30 Commission precedent that would invalidate the Postmaster General's testimony  
31 as justification of the Postal Service's pricing approach. In fact, there is no basis  
32 in law or logic to exclude the full reasoning underlying the Board's decision from  
33 consideration of the policy justification for ATB.

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1           In this regard, Mr. Mitchell appears to go farther than objecting that  
2   consideration of such reasons would be inappropriate. As shown in the above  
3   quotation, he apparently also objects to the Postal Service's timing of its rate  
4   request, and suggests that, if it needed money sooner rather than later, the  
5   Postal Service should have borrowed the funds. In fact, although he denied that  
6   Valpak's position challenged the timing of the case, or the decision to seek rate  
7   and fee increases to fund the escrow, rather than through borrowing, that is the  
8   clear implication of his testimony. He states:

9                   My view is (i) if a rate case had to be filed, it should  
10                   have been a full, normal case, (ii) there is no basis  
11                   for, and no real way to fund, one category of  
12                   expenses one way and another category of expenses  
13                   another way, and (iii) the Postal Service should have  
14                   had no real difficulty in working out any associated  
15                   problems of timing and financing.

16  
17   See response to USPS/VP-T1-~~5~~<sup>5</sup>.

18           Mr. Mitchell is entitled to his opinion, but his criticisms have no merit, nor  
19   are his suggestions of an alternative policy and approach supported by informed  
20   reasoning. It is fully within the prerogatives of the Board, in the exercise of its  
21   statutory authority, to manage the Postal Service and to determine when, how  
22   and for what purposes to request recommendations on changes in rates and  
23   fees. Postmaster General Potter's testimony and the testimony of the Postal  
24   Service's revenue requirement witness, Mr. Tayman, USPS-T-6, fully explain the  
25   Board's financial policy choices, including the reasons supporting the Board's  
26   decision to request rate and fee increases to cover the escrow cost. Among  
27   those reasons was the desire to shorten the usual time between the filing of a

1 rate request and the implementation of rates and fees. An important  
2 consideration, furthermore, was to enhance the chances for settlement by  
3 formulating proposals that would avoid many of the issues that usually lead to  
4 protracted litigation.

5 Mr. Mitchell has produced no evidence that, from a postal policy  
6 perspective, the Board's decisions in these matters were flawed. The  
7 responsibility for these decisions and the policies that motivate them are  
8 inherently judgmental, and authority to make them is vested exclusively in the  
9 Board under the Act. Mr. Mitchell cannot substitute his personal preference or his  
10 judgment for the Board's on these policy matters.

11

12 **B. The Parties' Settlement Efforts Do Not Conflict with the**  
13 **Ratemaking Process Under the Postal Reorganization Act.**  
14

15 Mr. Mitchell has decried the procedural course this case has taken, as a  
16 result of the Postal Service's ATB proposals, and particularly the efforts by the  
17 parties to seek resolution through settlement. He states:

18 Focusing on settlement as a goal in such a situation  
19 introduces a dynamic that may be out of line with appropriate  
20 ratemaking. It is altogether possible that the Postal Service, in  
21 negotiating with intervening parties, who may represent the  
22 interests of some mailers to the neglect of others, will find that it  
23 can achieve settlement by proposing rates that it cannot justify as  
24 most appropriate, in hopes that the Commission will do little more  
25 than certify that the rates in the settlement are within a range  
26 allowed by law, instead of being the best for the nation. The  
27 incentives of such a dynamic are unacceptable and should not be  
28 allowed to dictate the nation's postal rates and fees.  
29

1 VP-T-1, p. 17, Tr. 9/5283. When asked to define rates that would be “best  
2 for the nation,” he responded:

3 The Act establishes a set of guidelines for setting rates and  
4 provides for review and decision-making by five commissioners.  
5 The process is guided as well by Commission rules and by  
6 principles the Commission has adopted. The usual procedure is for  
7 the Commission to be presented with proposals and testimony from  
8 the Postal Service and interested parties. When the Commission is  
9 presented with a complete record and makes an unencumbered  
10 recommendation (*meaning, for present purposes, that it is not*  
11 *presented with a settlement agreement, unanimous or not*), I view a  
12 recommended decision coming from such circumstances as the  
13 best for the nation.

14  
15 Response to USPS/VP-T1-9(b)(emphasis added). When asked to explain  
16 what criteria would be applied to develop “best for the nation” rates, he  
17 clarified as follows:

18 I do not contend that one can focus on the items you identify, or on  
19 any other list, and specify how certain treatment of them would lead  
20 to the best rates. Rather, I define rates that are best for the nation  
21 in terms of *the result of a deliberative process*.  
22

23 Response to USPS/VP-T1-10 (emphasis added).

24 Witness Mitchell thus claims that the Postal Service’s filing is, in effect,  
25 procedurally deficient, not only because the proposed rates are inappropriate, but  
26 because it has circumvented the normal “process” intended by the Act. He  
27 states:

28 I have not argued that the Postal Service’s filing violates any  
29 principle of law, nor have I argued that the Commission’s review  
30 cannot recognize any financial situation that exists. But as a  
31 practical matter, the ratemaking scheme as implemented by the  
32 Commission requires that cases be examined thoroughly, relative  
33 to the Act, and that current costs be fully recognized. I do not think  
34 the Postal Service’s filing in the instant docket meets this test,  
35 which is to say that this case as filed does not adequately  
36 recognize current costs and the guidance in the Act.

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1

2 Response to USPS/VP-T1-6(a). He states further:

3       Nothing in the section of my testimony you cite argues that any  
4       specific principle of law has been violated. However, it is my view  
5       that the case does not appropriately honor the regulatory scheme  
6       that has evolved under the Act and that I believe to be  
7       encompassed by the Act. For example, I believe it is better to use  
8       current costs than historic costs to set rates, a view the  
9       Commission has expressed in the past. See Docket No. R94-1,  
10      *Op. & Rec. Dec.*, p. 1-5, ¶ 1017.

11

12 Response to DMA/VP-T1-8(b), Tr. 9/5409-10.

13       Mr. Mitchell's claim that the Postal Service's proposals should be rejected  
14      because the Act intends or "encompasses" a particular "ratemaking scheme" or  
15      "regulatory scheme," as he defines it, is wrong and misleading. While the Act  
16      prescribes a legal process, as guaranteed under statutory guidelines  
17      implemented by Commission rules of procedure, it does not dictate any particular  
18      course for any proceeding initiated by the Postal Service; nor does it dictate the  
19      form or contents of the record developed to review any particular proposal. The  
20      Commission's rules, furthermore, do not specify or limit the Postal Service's  
21      proposed pricing approach in any case, or require participants to disagree with  
22      the Postal Service, if an acceptable settlement can be reached. Rather, as noted  
23      above, the Commission's rules specifically governing omnibus rate cases, for the  
24      most part, merely set out the type of information and explanations that the Postal  
25      Service must provide when it requests rate and fee changes. 39 C.F.R. §  
26      3001.54. Far from proscribing settlement efforts the rules are constructed to  
27      facilitate them. 39 C.F.R. § 3001.29.

1           In this case, the Postal Service has followed all applicable Commission  
2 rules. No part of the ratemaking process, or scheme, as set forth in the Act and  
3 the Commission's rules, has been circumvented by the Postal Service or the  
4 other parties in their attempt to fashion a settlement to this case.

5           By contrast, Mr. Mitchell's "appropriate ratemaking process"—one that  
6 views settlement as an "encumbrance"—is described nowhere in the Act or in the  
7 Commission's rules. In fact, the Commission's rules, its practice, and its public  
8 statements all would support the conclusion that appropriate ratemaking favors,  
9 rather than discourages, settlement, as long as the proceeding has been fairly  
10 conducted and the Commission has taken into account all relevant  
11 considerations in making its recommendations.

12           Furthermore, Mr. Mitchell has provided no evidence that the parties to the  
13 settlement have failed to comply with any of the Commission's rules. The only  
14 "failures" that he might point to are that the parties have failed to meet his own  
15 personal standards for adhering to the "appropriate ratemaking process." Chief  
16 among these failures, apparently, is that the Postal Service has proposed a  
17 settlement that a number of parties appear to be willing to accept.

18           Aside from failing his "no settlements" test, however, it would appear that  
19 the process followed in the current case would satisfy even Mr. Mitchell's strict  
20 requirements. He states:

21           This process requires the Postal Service to present and discuss all  
22 bases for the rates proposed. It must be transparent with all of its  
23 policy positions. Following the filing, the Commission and  
24 interested parties examine the case, explore alternatives, and have  
25 the opportunity to supplement the record with information and  
26 analyses that might be helpful to the Commission. In the end, the



1           Commission makes a recommendation based on the Act, its  
2           judgment, and the record developed.

3  
4       VP-T-1 at 19, Tr. 9/ 5285.

5  
6           All of these steps have been, or will be taken. Mr. Mitchell has not shown  
7       that the Postal Service has failed to “present and discuss all bases for the rates  
8       proposed.” The testimonies of witnesses Potter, Robinson and Taufique present  
9       clear and thorough demonstrations of the bases for the rates proposed, and  
10      show how the Postal Service’s specific proposals meet the requirements of the  
11      Act. Furthermore, the Commission and all interested parties have had ample  
12      opportunities to “examine the case, explore alternatives, and...supplement the  
13      record with information and analyses.” Few parties have chosen to attack the  
14      Postal Service’s proposals, and, if only judged by their failure to conduct  
15      discovery, engage in cross-examination, and submit rebuttal, most participants  
16      have found the proposals acceptable given the current circumstances.

17           Finally, the Commission will, as it always has, base its recommendation  
18      “on the Act, its judgment, and the record developed.”

19           Therefore, if we discard Mr. Mitchell’s unreasonable rejection of all  
20      settlements, this case fulfills even his own process requirements, which are much  
21      more stringent than the specific requirements of the Act or the Commission’s  
22      rules.

**C. The Across-the Board Pricing Approach Conforms to Statutory Requirements, Is Supported on the Record, and Produces Reasonable Rate Increases for Standard ECR and Other Mailers**

**1. An Across-The-Board Rate Increase Proposal Is Permitted Under The Act.**

Witness Mitchell claims that the Postal Service's ATB rate increase proposal is inconsistent with the ratemaking scheme and requirements outlined in the Act. Most succinctly, he states:

It would be a coincidence of monumental unlikelihood for the full scheme outlined in the Act to collapse to a simple ATB proposal.

VP-T-1 p. 21, Tr. 9/5487. He further cites the Commission's critique of the Postal Service's ATB proposal in Docket No. R94-1. *Id.*, pp. 21-22, footnote 12, Tr. 9/5487-88. In Docket No. R94-1, the Commission observed:

The Postal Service's across-the-board filing is inconsistent with cost-based ratemaking. The request ignores changing differences in costs between the classes of mail, includes no analysis of changing cost patterns within subclasses; and would result in substantial changes in the allocation of institutional costs among the subclasses of mail. The Service's rate proposal ignores changes in attributable costs.

PRC Op. R94-1, ¶ 1017. Mr. Mitchell reinforces the Commission's statement in that case, and concludes that only pricing proposals that track changes in costs since the last rate proceeding can pass muster under the Act.

Mr. Mitchell, however, does not deny that, in this proceeding, the Postal Service, pursuant to the Commission's rules and extensive discovery, has presented sound evidence of individual levels of costs in the test year, including

1 detailed special cost studies, based on recent data collection and cost analyses.  
 2 This record evidence supports the Postal Service's position that the only  
 3 *requirement* in Section 3622 of the Act has been met: that proposed rates must  
 4 cover attributable costs and contribute to all other costs (Section 3622(b)(3)).

5 As noted above, furthermore, the Act does not restrict the pricing  
 6 proposals that the Postal Service may submit with its Request (subject to the  
 7 requirement of Section 3622(b)(3)), nor does it limit the factors that the  
 8 Commission may consider in evaluating those proposals. In fact, under the Act,  
 9 the Commission is given broad latitude to consider "such other factors as the  
 10 Commission deems appropriate." 39 U.S.C. § 3622(b)(9). In this regard, even  
 11 witness Mitchell has admitted that the Commission's authority to consider other  
 12 factors is not limited by the statute. He stated:

13 aside from the record developed in the case at issue, its own  
 14 judgment, and the other policies of the Act, I know of no limits on  
 15 what other factors this section might allow the Commission to  
 16 consider.

17  
 18 Response to DMA/VP-T1-5, Tr. 9/5403.

19 **2. Sound Policy Reasons Support The Postal Service's ATB**  
 20 **Request.**  
 21

22 As discussed above, Mr. Mitchell attempts to restrict the Postal Service's  
 23 justification for its proposals in this case by fabricating invalid rules of logic and  
 24 non-existent accounting and ratemaking principles. Notwithstanding the  
 25 Commission's views in Docket No. R94-1, however, I believe that, in this case,  
 26 the Postal Service's pricing approach and proposals are fully justified by the  
 27 Board's legitimate policy objective. Furthermore, I believe that the ATB approach

1 has been adequately explained and supported on the record, and reconciled with  
2 all applicable ratemaking policies and principles. In particular, the testimonies of  
3 witnesses Potter, Tayman, and Robinson provide ample justification for the  
4 Postal Service's approach.

5 **3. The Act Does Not Require Rate Change Proposals To**  
6 **Track Cost Changes.**  
7

8 As noted above, Witness Mitchell objects that the Postal Service's ATB  
9 rate change proposal is inappropriate because it does not track the cost changes  
10 that have occurred since the last rate case. For example, during cross-  
11 examination, he stated:

12 In fact, I think I said in my testimony that one could hypothesize  
13 certain situations and say if these situations were met then the  
14 natural outcome of a normal rate process might be an across-the-  
15 board increase, but I don't think those conditions have been met.  
16

17 Q. That's the crux of the of the problem that you have with this  
18 case, isn't it, that the current rates are not appropriate? They are  
19 out of line with costs and that this is the case where the  
20 Commission ought to take at least a first step in fixing that  
21 disparity?  
22

23 A. Well, I certainly talked about the case in terms of cost. The  
24 first part of your question was about costs. I don't think one can  
25 make the case that Postal Service costs haven't changed in the last  
26 three or four years.

27 I think we have every reason to believe that all kinds of  
28 changes have occurred. All kinds of adjustments have been made.  
29 Technology has been put in place. Equipment has been put in  
30 place. Mail practices have changed.

31 There's been a lot going on, and if you look at the Postal  
32 Service's cost presentation in this case, you know, you see some  
33 costs that went up 30 percent and some when down 10 percent  
34 and some went up six percent and so it paints a picture of massive  
35 change, massive adjustment, massive differences from what we've  
36 seen in the past.

1           None of these were recognized in rate design. There wasn't  
2 one rate design spreadsheet in the whole case that gave us a  
3 presort tree or anything like that and said, you know, here's what  
4 this cost is now and here's what it was in the past and here's how  
5 we should recognize it in a pass-through. These things weren't  
6 even calculated after-the-fact.

7           Yes, I think one could say gee, if nothing has changed, nor  
8 relative costs are different, no market conditions are different, it's  
9 altogether possible that a perfectly reasonable rate process if  
10 nothing was brought into the record before this, one could say gee,  
11 the outcome of that would probably be approximately the same  
12 percentage increase for everybody. That hasn't been examined,  
13 and I don't think that situation applies.

14  
15 Tr. 9/5450-51. Elsewhere, he states:

16           It is true that I believe the Postal Service strayed from a process or  
17 recognizing current costs and giving *full recognition to the policies*  
18 and factors in the Act, as developed further and implemented by  
19 the Commission, and that I believe it not to be in the best interests  
20 of the Postal Service or the nation for the Postal Service to have  
21 done this. The Commission should be aware that such things (as  
22 straying) are possible, which makes it all the more important for the  
23 Commission to judge the case on its merits and not be swayed by  
24 arguments that the Postal Service and participants adhering to a  
25 settlement agreement want the rates in the agreement.

26  
27 Response to USPS/VP-T1-7(b).

28           The requirement that Mr. Mitchell enunciates, however, that rate change  
29 proposals must always track costs changes for individual mail categories, is not  
30 found in either the Act or in the Commission's rules. Notwithstanding the  
31 Commission's Opinion in Docket No. R94-1, furthermore, while in most  
32 *circumstances it may be desirable to reflect cost changes in rates*, neither the  
33 Postal Service's policy, nor Commission rules or practice would automatically  
34 exclude an ATB approach to pricing, when it is justified by sound policy and  
35 circumstances supported on the record. In particular, no ratemaking principle  
36 with which I am familiar would restrict Commission consideration of ATB on the

1 record established so far in this proceeding.<sup>5</sup> In light of the that record, I  
 2 conclude that Mr. Mitchell's objections that the Commission cannot recommend  
 3 the Postal Service's ATB proposal because its rate changes do not specifically  
 4 track cost changes since the last rate case do not warrant rejection of the Postal  
 5 Service's proposals.

6 **4. The Postal Service's ATB Rate Change Proposal Does**  
 7 **Not Unreasonably Affect The Development Of Rates**  
 8 **Over Time.**  
 9

10 Mr. Mitchell claims that an ATB rate increase will disrupt the normal and  
 11 appropriate progression of rates over time. He states:

12 Progress in rates over time requires changes. Given this, any  
 13 procedure that slows the development and implementation of  
 14 optimal rates or makes them more difficult to attain is suspect on its  
 15 face.

16  
 17 VP-T-1, p. 30, Tr. 9/5296.

18  
 19 He observes further:

20  
 21 The key to the dynamic impact of a particular omnibus rate docket  
 22 lies in the importance of considering the *effects* of the increases on  
 23 mailers and other parties. Indeed, the Act specifically requires that  
 24 consideration be given to "the effect of rate increases upon the

---

<sup>5</sup> Even Mr. Mitchell admits that he can conceive of situations in which an ATB approach to pricing might be justified, although he insists this is not one of them. He states:

No suggestion is being made that rates recommended in a normal rate case would never turn out to involve proportionate increases in some collections of rates, possibly including entire subclasses. One can make the case, in fact, that if a set of markup indexes is *approximately maintained and neither relative costs nor a range of relevant exogenous factors change*, the natural outcome of a normal rate process would be expected to have an ATB character.

VP-T-1, p. 23, Tr. 9/5289

1 general public, business mail users, and enterprises in the private  
 2 sector of the economy engaged in the delivery of mail matter other  
 3 than letters." 39 U.S.C. section 3622(b)(4).

4 It is perfectly obvious that if an ATB increase is implemented  
 5 instead of any increase that varies in size among rate categories,  
 6 the increases required in the *next* case to reach a meritorious rate  
 7 position will be for some categories larger than otherwise would be  
 8 the case, and thus that an ATB case will lead in all likelihood to  
 9 arguments of rate shock in the next case, which might keep the  
 10 meritorious position from being reached.<sup>13</sup> Therefore, the nation  
 11 would be expected to be worse off. Such a result cannot be  
 12 considered a consistent application of the Act.

13  
 14 <sup>13</sup> Mailers receiving lower-than-appropriate rate increases in an  
 15 ATB case could receive tempered rates in the next case, at a cost  
 16 to other mailers, but they would not likely be asked to make catch-  
 17 up payments. In a related situation in Docket No. R90-1, the  
 18 Commission said: 'We must recommend test year rates which are  
 19 fair and equitable for test year mailers; they should not, and are not,  
 20 designed to provide a "catch-up" for past decisions.' *Op. & Rec.*  
 21 *Dec.*, Docket No. R90-1, p. IV-35, ¶ 4112."

22  
 23 VP-T-1, p. 23 & n. 13, Tr. 9/5289.

24 Witness Mitchell's contentions lack merit in this case for three reasons.

25 First, his references to "optimal rates" and "meritorious position" suggest that  
 26 there is some "right" set of rates sanctioned by the Act that should be  
 27 recommended, and that would be recommended were there no ATB proposal.

28 Yet, Mr. Mitchell himself testifies:

29 My conception is that the Act provides both guidance and strictures,  
 30 that neither of these are precise, and that more than one set of  
 31 rates is consistent with them."

32  
 33 Response to USPS/VP-T1-9(a). The Commission, furthermore, has  
 34 stated:

35 "There is no single set of rates which is so 'right' that any deviation  
 36 from it would produce rates which would be unlawfully unfair or  
 37 inequitable."  
 38

1 PRC Op. R87-1, ¶ 4001.

2

3 Secondly, Mr. Mitchell's contentions fail because they are predicated on  
4 the assumption that the Commission, if it approves an ATB rate increase, has not  
5 met its responsibility to consider the future consequences of its  
6 recommendations and find that the benefits of its recommendations outweigh any  
7 likely negative outcomes.

8 Thirdly, Mr. Mitchell's contentions lack merit because they are largely  
9 speculative constructs. While he develops a mathematical model to illustrate his  
10 point, and concludes that considerations of "rate shock" would preclude  
11 "meritorious" rates from being set in the next case, his results actually flow from  
12 the speculative assumptions used to populate his model. See VP-T-1 at 27-30,  
13 Tr. 9/5293-96. Mr. Mitchell provides no credible forecasts showing in any way or  
14 with any specificity that his negative scenarios are probable. His claims should  
15 be rejected.

16 The Postal Service's witnesses have provided substantial evidence  
17 supporting its view that there are good, sound policy reasons to support its ATB  
18 request. With any rate request, there is some risk that conditions may turn out  
19 different than forecast when the case was litigated. It is normal for the  
20 Commission to take this into account when it recommends rates. In this case,  
21 witness Potter has testified that the Postal Service intends to file the next rate  
22 case soon. His assurance of an opportunity in the near future to investigate rate  
23 relationships and consider appropriate changes blunts whatever residual merit



1 Mr. Mitchell's claims may have. The Commission should give no weight to Mr.  
2 Mitchell's speculative hypothetical scenarios.

3 **IV. THE PROPOSED ECR RATES ARE REASONABLE AND CONSISTENT**  
4 **WITH STATUTORY REQUIREMENTS**

5  
6 **A. THE POSTAL SERVICE'S RATE PROPOSALS FOR ECR**  
7 **RATES YIELD A PERMISSIBLE COST COVERAGE AND**  
8 **ARE SUPPORTED BY THE RECORD**  
9

10 Witness Mitchell's testimony claims that ECR has a cost coverage that is  
11 "too high and should be reduced" in this case (VP-T-1 at 37 Tr. 9/5303)  
12 Specifically, Mr. Mitchell contends that the proposed rates for ECR are  
13 impermissibly high because one of the goals of creating the ECR subclass was  
14 to recognize market and demand differences for saturation mail and thereby  
15 lower its cost coverage and that goal has not been achieved despite several  
16 intervening rate cases: "The cost coverage has not been reduced, and I find no  
17 basis for the argument that market or demand differences have been  
18 recognized." (VP-T-1 at 45, Tr. 9/5311). Mr. Mitchell then advocates that the  
19 appropriate cost coverage should be at the level of the former Third Class, 146.2  
20 percent from R90-1. VP-T-1 at 58, Tr. 9/5324. See also, VP-T-1 at 52, Tr.  
21 9/5318.

22 Mr. Mitchell further contends that, not only have rates not been lowered  
23 sufficiently by the creation of the ECR subclass, but that they are now higher  
24 than they would have been had the subclass not been created (VP-T-1 at 48).  
25 Mr. Mitchell concludes that since the cost coverage is too high, the rates are not  
26 supported by the Act. I disagree. The proposed ECR rates are reasonable; they

1 are in line with recent Commission decisions; and they represent part of a  
2 balanced proposal that is well within the Commission's authority to recommend.

3 Mr. Mitchell's arguments inappropriately treat the ECR rates as if they  
4 could be considered in isolation, without also considering the possible effects of  
5 changing them on other subclasses and special services. When proposing and  
6 recommending rates, however, the Postal Service and the Commission must  
7 balance the needs of the entire postal system. Because of the Postal Service's  
8 breakeven requirement in this case, if ECR rates are to be reduced, other  
9 mailers' rates must increase. Mr. Mitchell, however, has not presented any  
10 usable evidence that demonstrates which other subclasses' rates are unfairly,  
11 inequitably, or even undeservedly low, and which could be painlessly tapped to  
12 reduce the ECR cost coverage. In this regard, in the unique circumstances of  
13 this case, the Postal Service's need to fund the escrow obligation affects all  
14 customers, and it would be unreasonable and inequitable for any single subclass  
15 to be excused from bearing its share of the burden.

16 Mr. Mitchell is inviting the Commission to open a Pandora's box by  
17 adjusting cost coverages and rate relationships when the only party to challenge  
18 the pricing and rate design in this case has been Valpak. Mr. Mitchell himself  
19 has failed to provide an adequate record to make such adjustments. That is not  
20 to say that Mr. Mitchell has not raised important issues. I readily acknowledge  
21 that his concerns, as well as those of other mailers, should be given due  
22 consideration in the future. In light of the unique circumstances of this case,  
23 however, including the prospects for settlement, I would strongly recommend that

1 such concerns be assessed in a future proceeding, and that they not deter the  
2 Commission from recommending the rates proposed by the Postal Service.

3 In arguing that the cost coverage is too high, Mr. Mitchell's testimony  
4 appears to endorse the concept of keeping ECR's cost coverage constant at the  
5 values recommended by the Commission in Docket No. R90-1, 146.2 percent.<sup>6</sup>  
6 The Commission's recommendations of coverages and appropriate markups  
7 change over time, however, based on its consideration of the record evidence  
8 before it in each docket. Consequently, it should reject Mr. Mitchell's notion that  
9 an R90-1 markup is appropriate for ECR in 2006.<sup>7</sup>

10 Finally, a significant portion of Mr. Mitchell's testimony is occupied by his  
11 attempts to develop an "alternative history" for ECR that apparently attempts to  
12 make at least the following points:

- 13 • If the ECR subclass had not been created, passthroughs would have  
14 moved to 100%. Tr. 9/5311
- 15 • If the ECR subclass had not been created, saturation mail rates would  
16 have been lower than they are today. Tr. 9/5314

17 I cannot prove that these assertions are false since I have no way to know  
18 with any reasonable certainty how saturation mail's history would have evolved  
19 had certain events not taken place. But, I assert, Mr. Mitchell does not know  
20 either. Despite an extensive attempt at "scientific" modeling, what drives his

---

<sup>6</sup> See, for example, VP-T-1 at 58, Tr. 9/5324, lines 7-9.

<sup>7</sup> I would also note that reliance on R90-1 cost coverages has substantial financial implications. Given the growth in the delivery network and the implications for institutional costs versus the relative reduction in attributable costs due to worksharing and automation along with other efforts, R90-1 cost coverages would fail to allow the Postal Service to achieve financial breakeven.

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1 results is fundamentally his own assumptions about what would have happened.

2 And here witness Mitchell can offer nothing more than speculation.

3 Witness Mitchell assumes that without a separate subclass for saturation  
4 and other carrier route sorted Standard Mail, passthroughs of estimated cost  
5 differentials between carrier route and regular rate mail would have moved to  
6 100%. Yet he offers no evidence—only his opinion—to bolster this claim.

7 Mr. Mitchell has also provided no evidence that the Postal Service or the  
8 Commission would have viewed the trajectory of saturation mail rates (beyond  
9 the rate relief obtained in Docket No. MC95-1 and subsequent rate cases) any  
10 differently if the ECR subclass had not been created and saturation mail rates  
11 could only be lowered by making certain passthroughs closer to 100%.

12 Witness Mitchell's testimony on this subject, resting only on his  
13 assumptions about how the Postal Service and Commission would have acted  
14 had there been no ECR subclass, lacks any merit and should be disregarded.

15 In short, the Postal Service has evaluated its proposal against the  
16 requirements of the Act and, as testified by witnesses Potter and Robinson, the  
17 proposed prices represent a reasonable policy response to a unique financial  
18 challenge, a response that is fair and equitable and meets all the Act's  
19 requirements.

20

21 **B. WITNESS MITCHELL'S RATE DESIGN CONCEPTS LACK**  
22 **SUFFICIENT MERIT TO BE THE BASIS FOR SUPPLANTING**  
23 **THE PROPOSED SETTLEMENT RATES**

24

25 Witness Mitchell's discussion of alternative rate design sets forth

26 three principal concepts: (i) that ECR cost coverage should be reduced 10

1 percentage points and, as a result, that rates should remain unchanged at  
2 their current values; (ii) the letter-flat cost differential passthrough for ECR  
3 should be at least 100%; and (iii) that the rates for ECR Basic letters be  
4 “decoupled” from the rates for 5-digit Standard Mail Regular Automation  
5 letters. (VP-T-1 pp. 80, 82, 83).

6 Mr. Mitchell’s concepts, while not frivolous, do not provide the  
7 record with the foundation that would be necessary to form the basis of a  
8 redesign of rates. The Postal Service has provided the Commission with  
9 the necessary record support for its specific rate proposals, which  
10 represent a careful balance among ratepayers that meets the criteria of  
11 the Act.

12 By comparison, Mr. Mitchell fails even to propose any rates. Rather  
13 he has put forth rate design ideals whose end result would be that Valpak  
14 would pay less postage than under the rates recommended by the Postal  
15 Service. In doing so, he has failed to discuss the impact that his rate  
16 design concepts would have on other ratepayers.

17 For example, Mr. Mitchell’s proposed freezing of current ECR rates  
18 could not be achieved, given the Postal Service’s breakeven requirement,  
19 without raising the rates paid by other mailers. This would upset the  
20 delicate balance presented in the Postal Service’s rate proposals.

21 Mr. Mitchell also suggests, as an aside and without discussion, the  
22 following additional rate design concepts: (i) generally set all other cost  
23 differential passthroughs to 100%; (ii) set the increases for the residual

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1 shape surcharge, the parcel barcode and the pound rates to conform with  
2 the subclass average rate increase; (iii) set the drop-ship discounts using  
3 the Docket No. R2001-1 passthroughs; and (iv) set the rates for Standard  
4 Mail Nonprofit and NECR such that the average revenue ratio of Public  
5 Law 106-384 is 60% with only deviations for rounding conventions  
6 permitted. These concepts are presented as an afterthought and Mr.  
7 Mitchell has failed to provide the support that would be needed if they  
8 were to be used by the Commission as the basis for redesigning the rates.  
9 They lack merit and should be disregarded.

10 To summarize, Mr. Mitchell's specific rate design proposals are  
11 largely unspecific, unsupported and unhelpful. Their common themes are  
12 that they are self-serving, and they do not provide the Commission with  
13 either the specificity or the information it would need to implement them on  
14 a fair and defensible basis. They should be rejected.

15

16 **V. THE POSTAL SERVICE IS ALREADY IN THE PROCESS OF**  
17 **EXPANDING ITS DATA COLLECTION EFFORTS WITH RESPECT**  
18 **TO DALs**  
19

20 On pages 25 and 80 of his (revised) testimony, Dr. Haldi makes the point  
21 that the sheer number of DALs in the postal system warrants enhanced attention  
22 in the data collection process. Although I am not a data system witness, I have  
23 been asked to update the Commission on relevant developments regarding this  
24 subject.

1           In the March 17, 2005 Postal Bulletin (No. 22150, which can be found on  
2   the Postal Service's webpage), starting on page 11, notice was provided  
3   of redesigned postage statements. On pages 12 and 13 of the Postal Bulletin,  
4   the text of the notice mentions a new data collection box for DALs on the  
5   Standard and Nonprofit Standard postage statements. The new DAL reporting  
6   box can be seen on the actual revised postage statements on pages 27 and 36  
7   of the Postal Bulletin. As indicated on page 11 of the Postal Bulletin, the new  
8   postage statements became available effective April 3, 2005, and mailers using  
9   DALs were among the few not allowed to continue to use the previous postage  
10  statements.

11           I am informed that the Postal Service's data systems personnel are  
12  proceeding through the steps necessary to capture the new DAL information  
13  from the postage statements for data system reporting purposes. It is my  
14  understanding that completion of that process is anticipated sometime after the  
15  start of FY 2006. It appears, therefore, that the Postal Service shares Dr. Haldi's  
16  views regarding the need for improved data collection with respect to DALs, and  
17  had actually initiated efforts to achieve that objective even before this case was  
18  filed in April.

1           CHAIRMAN OMAS: That brings us to all cross-  
2 examination. One participant has requested all cross-  
3 examination, Val Pak Direct Marketing Systems,  
4 Incorporated and Val Pak Dealers Association.

5           Is there any other participant in the  
6 hearing room who would like to cross-examine this  
7 witness?

8           There being none, Mr. Olson, you may begin.

9           MR. OLSON: Thank you, sir.

10                   CROSS-EXAMINATION

11           BY MR. OLSON:

12           Q     Dr. Kiefer, as a preliminary matter, I want  
13 to just note two typos in your testimony not in  
14 anything you wrote, but in quotations from Mr.  
15 Mitchell's testimony not to bother to make them, but  
16 just so the record would reflect these. If you would  
17 accept these, at page 22, line 7 has the word "not" at  
18 the end of a line and it should be "no"; and at page  
19 22, line 16, the same page, that it has the word "or"  
20 and it should be "of."

21           A     Line 16?

22           Q     Line 16.

23           A     Of, okay.

24           Q     And line 7, at the end of the line, it  
25 should be "no" instead of "nor." And that those are



1 as they appear in Mr. Mitchell's testimony. I just  
2 want the record to reflect it because it is harder to  
3 read it with the errors.

4 A I accept those corrections.

5 Q Would you turn to the next page, 23, of your  
6 testimony and beginning on line 1, you make a  
7 statement. You say: I conclude that Mr. Mitchell's  
8 objections that the Commission cannot recommend the  
9 Postal Service's ATB proposal because its rate changes  
10 do not specifically track cost changes since the last  
11 rate case, do not warrant rejection of the Postal  
12 Service's proposals. Do you see that?

13 A I see it.

14 Q I want to focus your attention on the word  
15 "cannot." Where precisely in Mr. Mitchell's testimony  
16 does he say the Commission cannot recommend the  
17 across-the-board proposal because it does not track  
18 costs?

19 A Mr. Olson, this statement here reflects my  
20 interpretation of Mr. Mitchell's testimony. There are  
21 a number of statements in the totality of his  
22 testimony that I have interpreted as implying that  
23 there is some kind of impediment that would, in some  
24 sense, hamper or preclude the Commission from  
25 recommending these because I interpreted his testimony

1 to be that there was some defect in the Postal Service  
2 proposals that would make it impossible for the  
3 Commission to find that they were consistent with the  
4 act. This was my conclusion from reading Mr.  
5 Mitchell's testimony.

6 Q Okay. Can you point me to any word in his  
7 testimony that he said: that the Commission cannot  
8 recommend, cannot, not should not recommend, the  
9 across-the-board proposal?

10 A Not in that specific direct language.

11 Q If you can't come up with a statement where  
12 he said that the Commission cannot recommend the  
13 across-the-board statement, would you agree with me  
14 that his testimony would be better described as saying  
15 that the Commission should not do it?

16 A As I said in my first response, my  
17 interpretation of Mr. Mitchell's testimony, as you no  
18 doubt have read in my testimony, I say that there is  
19 no impediment, he knows no reason -- in fact, there  
20 are good policy reasons why the Commission -- I mean I  
21 think there are good policy reasons behind the Postal  
22 Service's proposal, which the Commission can and, in  
23 my view, should take into account in recommending and  
24 that there was no impediment.

25 So, if Mr. Mitchell's testimony is supposed

1 to be interpreted consistent with what I have just  
2 said that there -- could have with what I have just  
3 said that there is no impediment, that, in essence, he  
4 is only objecting that the Commission should not, then  
5 I would say that we have a difference in viewpoint, a  
6 difference in policy. But there is apparently no  
7 difference in our assumptions that the Postal  
8 Service's proposals can be recommended by the  
9 Commission.

10 Q So, are you agreeing now that a better  
11 characterization  
12 of Mr. Mitchell's testimony is that the Commission  
13 should not approve an across-the-board rather than  
14 they cannot, since you have not been able to identify  
15 anywhere he says that?

16 A Well, I think I said earlier that the  
17 impression I got, the conclusion I drew was that there  
18 -- that a lot of the objections that Mr. Mitchell  
19 raised throughout his testimony used language such  
20 that it was very easy to interpret his testimony as  
21 implying that there were some impediments or  
22 deficiencies in the Postal Service's testimony that,  
23 as I said before, would make it such that the  
24 Commission could not, and if it is Val Pak's view that  
25 the correct interpretation of Mr. Mitchell's testimony

1 is that there are no such impediments, and he has  
2 really chosen his language in such a way as to say  
3 that the Commission should not, for whatever policy  
4 that Val Pak would think so important, then I can  
5 accept that.

6 Q Well, I am not asking you to accept what I  
7 say. You are making a characterization of Mr.  
8 Mitchell's testimony and you say now that your  
9 impression, that your interpretation, and I am asking  
10 you where he said it, so that we can look at the  
11 testimony and see whether you have fairly reflected  
12 his testimony to this Commission?

13 And if you can't point to it, then we will  
14 just move on.

15 A Okay, for example, let's take a look at page  
16 16 of my testimony, which does quote Mr. Mitchell's  
17 response up at the top. Interrogatory DMA/VP/T1-8(b),  
18 where he says -- he begins by saying nothing in the  
19 section of my testimony you cite that argues that any  
20 specific principle of law has been violated.

21 And then he continues on, that he says the  
22 case does not appropriately honor the regulatory  
23 scheme that has evolved under the act and that, I  
24 believe, to be encompassed by the act.

25 That language is not crystal clear, Mr.

1 Olson. It could be interpreted in one way, which may  
2 be perhaps the way Mr. Mitchell -- or perhaps the way  
3 you are trying to characterize Mr. Mitchell's  
4 testimony. I don't think that it would be wise for  
5 the Postal Service to leave this sort of ambiguous  
6 language there, so I have interpreted it perhaps as in  
7 the most -- or I have responded and attempted to rebut  
8 it based upon an interpretation that perhaps took the  
9 worse-case scenario, in which case he is implying, and  
10 he uses the term: it does not appropriately honor the  
11 regulatory scheme.

12 And I will skip ahead: that it is  
13 encompassed by the act, and that I think somebody -- a  
14 reasonable person might possibly come to an  
15 interpretation that he is saying that doesn't meet the  
16 requirements of the act. And I think both of us would  
17 agree that if it doesn't meet the requirements of the  
18 act, then the Commission cannot --

19 Q Well, just what you quoted there, page 16 at  
20 the top, this is Mr. Mitchell's response to an  
21 interrogatory. Nothing in the section of my testimony  
22 you cite argues that any specific principle of law has  
23 been violated. And from that, you come up with a  
24 conclusion that he says that the Commission cannot  
25 approve an across-the-board approach.

1                   Do you think that you have been entirely  
2           fair to his testimony when you put the worse possible  
3           spin on it, as you I think --

4           A       I would object to the use of the word spin  
5           on it.

6           Q       I will withdraw that. Let me say: I think  
7           you said the most favorable definition -- what was the  
8           word?

9           A       Let me perhaps say that my purpose in -- the  
10          stance I took in interpreting his testimony was to the  
11          conservative approach, that is to look at his  
12          testimony and try to rebut it. If I saw the  
13          possibility, let's say, for a range of meanings to be  
14          able to rebut it, the meaning that would be perhaps  
15          most unfavorable for the Postal Service is -- now, if  
16          you are willing to turn the page back one to the  
17          bottom of page 15, there is another quote, and I would  
18          point out that this is another example where Mr.  
19          Mitchell starts out by denying that the Postal  
20          Service's filing violates any principle.

21                   And, then, in the last sentence of that  
22          quote, he comes out and says: I do not think that the  
23          Postal Service's filing, in the instant docket, meets  
24          this test, which is to say that this case, as filed,  
25          does not adequately recognize current costs and the

1 guidance in the act.

2           There, again, he has said, at the top of the  
3 quote: I am not saying that the Postal Service's  
4 filing doesn't meet the requirements of the act.  
5 But, then, at the bottom, it says something which  
6 isn't totally explicitly saying: this cannot be  
7 recommended by the Commission. But he says it  
8 violated the guidance of the act, and I am not sure --

9           Q     Does it say violated? Doesn't it say --  
10 that's not what you just read. It doesn't say:  
11 violated the act does it?

12          A     No, it doesn't. It says it does not  
13 adequately recognize the cost and the guidance of the  
14 act.

15          Q     Wouldn't you call that a policy argument?  
16 Isn't that a fair description of it as a policy  
17 argument?

18          A     I think that is one possible interpretation.

19          Q     And the first line of that -- you didn't  
20 read this, but this is Mr. Mitchell's testimony also:  
21 I have not argued that the Postal Service's filing  
22 violates any principle of law; nor have I argued that  
23 the Commission's review cannot recognize any financial  
24 situation that exists. I mean could he have been more  
25 clear that he is not saying that the Postal Service's

1 filing is illegal and that the Commission cannot  
2 recommend it?

3 A As I said earlier, as I interpreted this  
4 quote, was that he gives with the first sentence and  
5 he takes away with the last. And that if Mr. Mitchell  
6 is only trying to say that it is the policy view about  
7 that, that the Commission should not recommend these  
8 particular set of rates, then I can accept that and I  
9 can --

10 Q If you can turn to page 23, I just want to  
11 move along. The heading you have there on your  
12 section says, "the Postal Service's ATB rate change  
13 proposal does not unreasonably affect the development  
14 of rates over time." Do you see that?

15 A I do.

16 Q Then after a couple of quotations from Mr.  
17 Mitchell, you go to page 24, line 24, and you say that  
18 his contentions lack merit for three reasons, and then  
19 I want to discuss those with you, if that's okay.

20 A Fine.

21 Q The first one is, on line 25, it says,  
22 "first, his references to optimal rates and  
23 meritorious positions suggest that there is some right  
24 set of rates sanctioned by the Act that should be  
25 recommended and that would be recommended were there



1 no ATB proposal." Do you believe Mr. Mitchell said  
2 there was a single right set of rates that should be  
3 recommended?

4 A I inferred that from the word "optimal."

5 Q Let me ask you this, didn't Mr. Mitchell  
6 define optimal in the sense of the outcome of the  
7 deliberative process before the Commission?

8 A I believe he didn't define the word  
9 "optimal." But, I think he was asked a question about  
10 what would be the best set of rates for the country.

11 Q Well, let me -- do you recall when he was  
12 asked about whether there was a single best set of  
13 rates and he said, no, there's a variety? And if the  
14 optimal rates are the results of a process, then you  
15 really think that he was saying, as you put it, that  
16 there was some right set of rates that should be  
17 recommended?

18 A I found when I read Mr. Mitchell's testimony  
19 that there were many places where Mr. Mitchell would -  
20 - Mr. Mitchell's testimony would not say outright  
21 certain things like the Commission cannot recommend  
22 these rates or something to that effect.

23 Q I think we've agreed now that you haven't  
24 found anyplace where he said that, right?

25 A Right. And I said, when you first asked the

1 question, if you'll recall, that that was a conclusion  
2 I drew from the reading the totality of his testimony.

3 Q It was your impression?

4 A It was my interpretation.

5 Q I think you've used both the words  
6 "interpretation" and "impression." Either one is  
7 fine.

8 A Yes; okay.

9 Q Let's keep on this and --

10 A Sure.

11 Q -- on page 28 -- 24, I'm sorry, not 28 --  
12 24, line 28, right here, Mr. Mitchell says, "my  
13 conception is that the Act provides both guidance and  
14 strictures, that neither of these are precise, and  
15 that more than one set of rates is consistent with  
16 them." Do you recall that?

17 A If it's in my testimony, I've read it.

18 Q Okay. And does the fact that more than one  
19 set of rates might be lawful have anything to do with  
20 the fact that there is no one set of rates that would  
21 be recommended if there wasn't an ATB proposal?

22 A Could you repeat that question again?

23 Q Sure. Does not Mr. Mitchell's discussion  
24 here about the fact that there could be more than one  
25 set of rates consistent with the Act, is that not

1 relevant to your statement, which we've read just a  
2 second ago, that you said Mr. Mitchell believes that  
3 there is a right set of rates that should be  
4 recommended?

5 A Well --

6 Q One right set of rates, that's what you sort  
7 of accuse him of.

8 A Well, he -- I didn't choose the word  
9 "optimal." So, he was the one, who selected that  
10 word. In my interpretation of the word "optimal," it  
11 means there is one sort of best or right set of rates.

12 Q But if the context is that the optimal rates  
13 come out of the following of a process, of a  
14 deliberative process, then -- you understand that use  
15 of the word "optimal?"

16 A If that is the interpretation. I realize  
17 that Mr. Mitchell is not here, let's say, on the stand  
18 anymore to clarify that issue. But, if that is the  
19 way that the Commission should understand that  
20 particular language in Mr. Mitchell's testimony, then  
21 I'm satisfied with that.

22 Q Okay. And if that were the case, then your  
23 first point here would get knocked out; correct?

24 A If Mr. Mitchell were not implying that there  
25 is some right set of rates, then my criticism -- my

1 first criticism there wouldn't apply.

2 Q Okay. Let's go to the second criticism,  
3 beginning on page three -- excuse me, line three, of  
4 page 25, you give your second reason why Mr.  
5 Mitchell's contentions lack merit. You say, "Mr.  
6 Mitchell's contentions fail because they are  
7 predicated on the assumption that the Commission, if  
8 it approves an ATB rate increase, has not met its  
9 responsibility to consider the future consequences of  
10 its recommendations and that the benefits of the  
11 recommendations outweigh any likely negative  
12 outcomes;" correct? I've read that correctly?

13 A I believe you've read it correctly.

14 Q Okay.

15 A I didn't --

16 Q Well, suppose the Commission considered the  
17 Postal Services proposal and the whole record in this  
18 case and it does approve an ATB increase just as the  
19 Postal Service proposed, if I read your second  
20 sentence -- your second reason here correctly, it  
21 says, "that if this happened, Mr. Mitchell has made an  
22 assumption. The Commission would not have considered  
23 the future consequences of those rates and, therefore,  
24 is derelict in fulfilling its responsibilities under  
25 the law." Isn't that what it says?

1 (Pause.)

2 A Okay. That reasoning or that particular  
3 objection might be better understood if we look at the  
4 quote I have of Mr. Mitchell's testimony beginning at  
5 the bottom of page 23. And --

6 Q I'm sorry --

7 A Okay. I am looking at the quote that  
8 actually begins on line 21, not in the footnote, at  
9 the bottom of page 23; okay.

10 Q I don't have a line 21 on page 23. It may  
11 be they're printed out differently for different  
12 computers.

13 A Okay. It is the quote that begins, "the key  
14 to the dynamic impact of a particular Omnibus rate  
15 docket." Okay, you have that particular quote. And  
16 he says, I believe it's in the second sentence,  
17 "indeed, the Act specifically requires that  
18 consideration be given to" -- and he quotes factor  
19 3622(b)(4). Then, he goes on to make -- to sort of  
20 make a conclusion. He says that "it's perfectly  
21 obvious that if an ATB increase is implemented instead  
22 of an increase that varies in size among rate  
23 categories, the increases required in the next case to  
24 reach a meritorious position will be for some  
25 categories larger than otherwise would be the case

1 and, thus, that an ATB case will lead, in all  
2 likelihood, to arguments of rate shock in the next  
3 case, which might keep the meritorious position from  
4 being reached. Therefore, the nation would be  
5 expected to be worse off. Such a result cannot be  
6 considered consistent application of the Act."

7 Now, there is another example where Mr.  
8 Mitchell implies that the consequences of the ATB case  
9 would lead to a result, which could not be considered  
10 consistent application of the Act.

11 Q It doesn't say "consider," right?  
12 "Consistent."

13 A It says, "they cannot be considered a  
14 consistent application of the Act."

15 Q Okay. Now, is that what you're relying on  
16 for your assumption that Mr. Mitchell says that if the  
17 Commission approves the Postal Service's ATB increase,  
18 then the Commission -- that he's assuming the  
19 Commission has not met its responsibility to consider  
20 the future consequences of its recommendations?  
21 That's the assumption -- that's where you find the  
22 assumption?

23 A My interpretation of this quote was that if  
24 the Commission -- what I read into this quote, the way  
25 I interpreted this quote is that Mr. Mitchell has

1 created a sort of a change of causality that if there  
2 is an across-the-board rate proposal and it's approved  
3 by the Commission and then in the next case, he infers  
4 a likelihood that there will be some arguments of rate  
5 shock and that the -- which might keep the meritorious  
6 position from being reached. And then he concludes  
7 that this is not -- cannot be considered a consistent  
8 application of the Act. I mean, from what I interpret  
9 that to mean is that if the Commission were to approve  
10 an across-the-board and then in the next case, there  
11 were parties, who claimed that rate shock occurred,  
12 then the Commission should have, but didn't, take into  
13 account this possibility when it approved the ATB.  
14 So, therefore, it was not considering the impact on  
15 customers, as required by section 3622(b)(4).

16 Q I mean, maybe the Commission looked at the  
17 issue and thought it wasn't a serious problem.

18 A Well --

19 Q You said that he assumed that the Commission  
20 has not met its responsibility to consider the future  
21 consequences of the recommendations. Did he say that?  
22 You continue to believe he said that?

23 A Mr. Mitchell has created -- well, what he  
24 has done -- obviously, since we don't -- we haven't  
25 had any future rate case, what he has done is he has

1       created sort of a logical chain of causality that  
2       would lead -- by the way in interpret his testimony,  
3       would lead to a situation where there would be harm  
4       done to mailers in a future rate case.

5           Q       Right. And that gets us -- let's transition  
6       now to this third reason, because that gets us into  
7       this, I believe, where -- it's on page 25, line  
8       eight -- you says, "thirdly, Mr. Mitchell's  
9       contentions lack merit because they are largely  
10      speculative constructs." And then you discuss this  
11      mathematical model of Mr. Mitchell's and say, down on  
12      line 11, "his results actually flow from the  
13      speculative assumptions." So, you've got in the same  
14      paragraph "speculative constructs" and "speculative  
15      assumptions" used to populate his model; correct?

16           A       That's what the testimony says.

17           Q       Can you outline for me, in this section of  
18      the testimony, all the speculative assumptions that  
19      Mr. Mitchell's model makes?

20           A       He started out with the -- in his particular  
21      model, which I believe is the one that he starts out  
22      with an across-the-board increase, where he gives  
23      everybody a 20 percent increase in rates and across-  
24      the-board. Then, he makes some speculative  
25      assumptions about what might happen in some subsequent



1 case. And based upon those set of assumptions in his  
2 model, he concludes that some of the rate increases  
3 that would flow from his assumptions would be  
4 considered too high -- would be considered by the  
5 Commission too high to ask mailers to pay.

6 Q Well, let's go over these sequentially here.  
7 First of all, Mr. Mitchell, his model assumes that  
8 there will be a next rate case. Is that a speculative  
9 assumption?

10 A That is not a speculative assumption.

11 Q And he assumes that issues of rate shock  
12 will be argued and considered in the next rate case.  
13 Do you have any problem with that assumption?

14 A It may or may not, but that isn't crucial to  
15 my objections.

16 Q Do you recall a rate case where people  
17 haven't argued rate shock?

18 A As I said, I don't object to that particular  
19 assumption.

20 Q Okay. And he assumes in his model that at  
21 the time of the next rate case, the current rates,  
22 then, would be different if the case is an across-the-  
23 board, as the Postal Service wants, or if it's not an  
24 across-the-board. Do you have any problem with the  
25 assumption that the rates would be different if it's

1 across-the-board versus the fact that if the  
2 Commission decides not to do across-the-board? Is  
3 that a speculative assumption?

4 A Can I get you to clarify that? Could you  
5 either repeat the question or perhaps clarify? What  
6 do you mean by the "rates would have been" --

7 Q Well, when --

8 MS. MCKENZIE: Perhaps Mr. Olsen could  
9 provide a cite to Mr. Mitchell's testimony. And I  
10 believe it might be about page 28 -- 25, 28.

11 (Pause.)

12 THE WITNESS: Mr. Olsen, if you look in  
13 Figure 1, I believe it's page 28, I think there's a  
14 table, which outlines, I think, some of the  
15 assumptions in Mr. Mitchell's model, at least it's  
16 page 28 on my copy.

17 MR. OLSON: I'm not sure I can give a better  
18 reference than 27, 28, generally. But, I don't have a  
19 specific line to reference.

20 BY MR. OLSON:

21 Q But let me ask you, this is your critique of  
22 his model, is he not saying that if you go into the  
23 next rate case with -- I guess you could look at  
24 Figure 1, line 6 -- an across-the-board rate increase,  
25 that you're going to have different rates that come

1 out of it, than if you don't have an across-the-board  
2 increase as in line 7; that there simply -- the  
3 Commission is likely to come up with different rates  
4 if it's an across-the-board formulaic versus a more  
5 traditional non-across-the-board case, that the rates  
6 that come out of it are going to be different. Is  
7 that a -- can we agree with that?

8 A I'm willing to agree with the statement that  
9 the rates may be different, but I don't agree with the  
10 statement that they of necessity will be different.

11 Q You don't think it will be incredibly  
12 unlikely that every rate would go up by the same  
13 percentage, if we had cost-based rates or some other  
14 besides across-the-board?

15 A Excuse me, perhaps I was answering a  
16 different question than you perceived I was answering.  
17 I was saying that -- I was looking at -- for example,  
18 at the subsequent case. Perhaps, you were not. Then,  
19 maybe you might want to re-ask the question.

20 Q I am; yes, sir. What I am is whatever rates  
21 would come out of this case would be the current rates  
22 when the next case begins.

23 A That, I think, we can all agree on.

24 Q That's the point. And that set of rates is  
25 either an across-the-board increase from the last case

1 or it's something else that the Commission -- if the  
2 Commission rejects an across-the-board approach.  
3 Those are the two scenarios, aren't they?

4 A The rates would be those that are  
5 recommended by the Commission and if amended by the --  
6 accepted by the Governors and implemented by the  
7 Board. I think, essentially, I agree with your point,  
8 that going into the next rate case, whatever case that  
9 emerge from this case would be the existing rates,  
10 yes.

11 Q Let me go back, then, to page 25 and you, on  
12 line 18 -- excuse me, 13, you say, "Mr. Mitchell  
13 provides no credible forecasts showing in any way or  
14 with any specificity that his negative scenarios are  
15 probable;" correct?

16 A That's what the testimony say.

17 Q Out of curiosity, you haven't attempted to  
18 prove that his scenario is improbable; right? You're  
19 just criticizing what he did. You failed to provide a  
20 forecast.

21 A I have not done a probability analysis on  
22 this. If it were possible to do such a thing, I'm not  
23 sure.

24 Q Okay. Do you believe it's improbable there  
25 will be a next rate case?

1           A     No.

2           Q     Okay. Do you believe that it's improbable  
3     that rate shock would be considered in that next rate  
4     case?

5           A     I think it is a distinct possibility. Mr.  
6     Olsen, maybe I can just clarify that -- let's qualify  
7     that. One of the things that I tried to avoid and  
8     perhaps I was also a little bit critical of Mr.  
9     Mitchell is making grand assumptions about the future.  
10    I do not know what the conditions will hold when,  
11    let's say, the rate case that follows this one will  
12    come about. And if it were very -- if the Board were  
13    requesting only a very, very small increase in rates,  
14    then it might be possible that there would be no real  
15    argument that there was rate shock. I'm just not  
16    ruling it out.

17          Q     Well, let me just focus on this forecast  
18    thing, because I'm asking you to explain to me any  
19    forecast that's been made that's relevant as to  
20    whether the across-the-board proposal the Postal  
21    Service -- and I'm going back to your heading of the  
22    section -- whether it would unreasonably affect the  
23    development of rates over time. Can you explain any  
24    forecast that's been made that's relevant to the  
25    across-the-board proposal to determine whether it is

1       unreasonably affecting the development of rates over  
2       time? I'm trying to get to the nub of your problem  
3       about forecast, that he has no credible forecast.

4           A       Mr. Mitchell raises an objection to the --  
5       or makes an assertion that it would be to problems  
6       with the evolution of rates over time, but he does not  
7       provide any forecasts that show that this is some kind  
8       of probability. I mean, he uses a model, which, I  
9       think, have rather unusual assumptions about rate  
10      changes and draws conclusions from that. My criticism  
11      was that his conclusions or, at the very least, the  
12      strength of his conclusions rests on the assumptions  
13      he has chosen to put in his model.

14          Q       Okay. If we're dealing with forecast, just  
15      focusing on forecast, suppose there were -- the  
16      Commission were to try to develop rates that are based  
17      on cost changes since the last rate case in each  
18      product versus an across-the-board approach. Don't  
19      you think that the Commission would be getting closer  
20      to cost-based rates than an across-the-board approach?

21          A       I know that Mr. Mitchell, in his testimony,  
22      has indicated that he strongly favors what he refers  
23      to as cost-based rates. I would like to point out  
24      that in the Postal Service's view, there is only one  
25      requirement in the Postal Reorganization Act that

1       refers to costs and, as witness Robinson points out in  
2       her testimony and exhibits, the Postal Service has met  
3       that requirement. And so in that sense, the Postal  
4       Service's rates are cost-based, in that sense, that  
5       they meet all the requirements of the Act.

6           Q       And do you believe that that is all that the  
7       Commission need do, is ensure that whatever the Postal  
8       Service's proposal is that it's recommended rates  
9       exceed cost for each product or each subclass perhaps  
10      and beyond that, it doesn't need to worry about cost-  
11      based rates? You said it was the Postal Service's  
12      view you are articulating?

13          A       The view -- your description of it is not  
14      the view that I believe I articulated. And to  
15      clarify, I would say, no, that is not my testimony.  
16      My testimony is essentially that the Commission will,  
17      as it always has, review the proposals that are made  
18      by the Postal Service. Witness Robinson has  
19      evaluated, she's assessed the particular -- the  
20      attribution and allocation of costs according to all  
21      of the factors of the Act and has concluded that, in  
22      particular, as I state elsewhere in my testimony, that  
23      the policy reasons given by Postmaster General Potter,  
24      when considered by the Commission in its discretion  
25      under factor b(9), should be able to find

1     justification for approving and recommending the  
2     across-the-board rates. And she shows that they meet  
3     all of the cost-based requirements of factor b(3) and  
4     that it, also, meets all of the other policy and  
5     pricing factors in the Act.

6           Q     Okay. Well, let's look at the proposals  
7     that are being made to the Postal Service, at least by  
8     Mr. Mitchell. Take a look at page 28 of your  
9     testimony, lines three to five. And I think we have  
10    to be clear about what the proposals are that are  
11    being made. And I want you to look at this, page 28,  
12    lines three through five, you say, "Mr. Mitchell  
13    appears to endorse the concept of keeping ECR's cost  
14    coverage constant at the values recommended by the  
15    Commission in docket number R90-1, 146.2 percent." Do  
16    you see that?

17           A     Yes, I do.

18           Q     Okay. Now, if you go back to page 26, lines  
19    18-21, you say something similar, but you don't use  
20    the qualifier "appears to endorse." You drop that.  
21    And you say, "Mr. Mitchell, then, advocates that the  
22    appropriate cost coverage should be at the level of  
23    the former third class, 146.2 percent, from R90-1;"  
24    correct?

25           A     That's what the testimony says.



1           Q     And then you have two cites: one to page 58  
2     of the Mitchell testimony, and one to page 52. You  
3     have his testimony there?

4           A     Yes, I do.

5           Q     If you could turn to page 58, the first  
6     reference. Do you have that?

7           A     Yes, I do.

8           Q     Okay. When I look at that testimony on page  
9     58, I see that it's at the end of a section that's  
10    dealing with issues related only to non-cost factor  
11    number one, fairness and equity, and it's a section  
12    that begins on page 56. Do you see what I'm talking  
13    about?

14          A     I see that that portion begins on 56 and  
15    goes to 58.

16          Q     Okay. So, it's -- do you see that the  
17    sentence that deals with this, I guess we're talking  
18    about seven through nine, begins with a very strong  
19    qualification? It says, "I find no basis for  
20    concluding the considerations of fairness and equity  
21    argue," and then it goes -- continues, "for a cost  
22    coverage on ECR that is higher than the coverage on  
23    the former third-class." Do you see that?

24          A     Yes, I do.

25          Q     Okay. Would you agree, then, that your

1 reference here on page 58 has nothing to do with an  
2 overall proposal for coverage, but rather as a  
3 conclusion that relates to criterion one only,  
4 fairness and equity, just one of the non-cost factors  
5 of the Act?

6 A I will concede that it could be interpreted  
7 in that regard.

8 Q Okay. Then, let's go to your other  
9 reference, also page 52. If you can turn to 52. And  
10 I'm assuming what you're referring to is on line 14,  
11 "in short, the Commission laid the various  
12 characteristics of third-class in its markets against  
13 the non-cost factors in the Act and reached the  
14 conclusion that its cost coverage should be 146.2  
15 percent, which was a market index of 0.927." Do you  
16 see that?

17 A Yes, I do.

18 Q Okay. Do you agree that this sentence is  
19 nothing more than a report on what the Commission in  
20 docket number R90-1?

21 MS. MCKENZIE: For the record, I'd like to  
22 note that in Dr. Keefer's testimony on page 26, at  
23 line 20, it's a "see also" cite and I would submit  
24 that's sort of a clarification where the 146.2 number  
25 comes from, since on page 58 of Mr. Mitchell's

1 testimony, it doesn't give what the cost coverage was  
2 in R90. So, I think it's giving a numeric reference.

3 BY MR. OLSON:

4 Q Do you like that answer?

5 A I like it.

6 Q So, really, your reference is only to page  
7 58, then? That's the only source of that information,  
8 correct?

9 A Yes.

10 Q And that has to do, we've agreed, with the  
11 fairness and equity criterion; correct?

12 A We've agreed that -- I believe we agreed  
13 that that is one interpretation, not necessarily the  
14 only one.

15 Q Let me ask you to turn to Mr. Mitchell's  
16 testimony at page 80, line eight. I'll read you one  
17 sentence. It says, "I propose a reduction of 10  
18 percentage points in this case relative to the  
19 coverage proposed by the Postal Service and 10  
20 additional point coverage for each in the next two  
21 cases." Now, for this case, 10 percent less than the  
22 Postal Service, can you tell us what the Postal  
23 Service coverage level for ECR that they're  
24 recommending is?

25 A I don't have that number precisely in front

1 of me. It was about 200 percent.

2 Q If I were to suggest that the number was  
3 226.4 percent, would you accept that?

4 A That sounds around the right ballpark.

5 Q And if I were to ask you to subtract 10  
6 percentage points from 226.4, what would you get?

7 A It would be 216.4.

8 Q Okay. And do you now see that -- or do you  
9 agree that that is what witness Mitchell is  
10 recommending for ECR cost coverage in this docket?

11 A If you read farther in my testimony, you'll  
12 see that, in fact, I point out the witness Mitchell  
13 specific proposals, including the one that -- as I  
14 understand it, his specific proposal, he starts out by  
15 saying that the cost coverage should be lowered by 10  
16 percentage points; but then he kind of switches it to  
17 say, well, really, the rates should be -- remain the  
18 same. So, he says it's approximately the same. But,  
19 then -- so, he -- one could take the 10 percentage  
20 points as sort of like a policy statement -- or a  
21 policy statement leading to the final recommendation.

22 Q And you think his final recommendation is  
23 146.2?

24 A No, I don't believe that that -- I was --  
25 no. If you --

1 Q Isn't that what you said?

2 A No; no. Excuse me --

3 Q Let me read you the quote and then you can  
4 react.

5 A Okay, sure.

6 Q Page 26 --

7 A Yes.

8 Q -- lines 18 through 21, "Mr. Mitchell then  
9 advocates that the appropriate cost coverage should be  
10 at the level of the former third-class, 146.2 percent  
11 from R90-1."

12 A Yes. I don't see an inconsistency between  
13 the two statements. In the one case -- in this one, I  
14 quote on page 26, Mr. Mitchell is saying, the way I  
15 interpreted it, Mr. Mitchell is saying this is really  
16 where it ought to be.

17 Q Well, and it says --

18 A Excuse me, I'm not finished. Then, when he  
19 comes down to make specific proposals, he says, in  
20 this case, we shouldn't change rates.

21 Q Okay.

22 A Okay. So, I don't see an inconsistency  
23 between those two.

24 Q Okay. Then, I'm just going to go back one  
25 more time.

1           A     Sure.

2           Q     Your counsel's answer, which you liked and  
3     adopted, says the second reference is not the one  
4     you're relying on. So, let's just look at the first  
5     again. ValPak T-1, at 58, this is page 26, line 20,  
6     and here's the quotation. Here is what Mr. Mitchell  
7     said and then I want you to tell me one more time if  
8     you believe that this is an adequate basis for your  
9     conclusion that he recommends a 146.2 percent markup -  
10    - or coverage, I'm sorry. Here's the quote: "I find  
11    no basis," and this is, as we know, in the section  
12    dealing with fairness and equity, criterion one, "I  
13    find no basis for concluding that considerations of  
14    fairness and equity argue for a cost coverage on ECR  
15    that is higher than the coverage of the former third-  
16    class or even higher than the coverage for all mail,"  
17    and then goes on to talk about the history. He's  
18    talking about fairness and equity and he's talking  
19    about relative movements.

20               Is he talking about -- do you think that he  
21    would say that if the market index changes, that there  
22    would be no change in coverage? I mean, in fact, he  
23    talks about the market index on -- in your other  
24    citation, at 52, does he not, the fact it changes from  
25    case to case?

1           A     Can you give me --

2           Q     Line 16 and 17, page 52. That's about what  
3     the market index was there.

4           A     Mr. Mitchell's testimony goes through  
5     several other pages where he continues to use the  
6     number 146.2 percent and all the way up to page --

7           Q     Where is that? Where are you referencing?

8           A     Okay. On page 52, line 18; on page 53, line  
9     seven and 10, he's talking about -- what I'm talking  
10    about is not that he is again making the assertion,  
11    but his focus from then on, he mentioned both the  
12    absolute cost coverage and then he, also, mentions  
13    what the markup index was and all of his discussions  
14    subsequent to that. I don't see him talking about a  
15    markup index of .927.

16          Q     Let me ask you this.

17          A     He continues to mention the absolute number  
18    and not a markup index.

19          Q     Let me ask you this, if you're talking about  
20    the history of how the Commission has considered  
21    markups on ECR in different prior dockets and this one  
22    happens to be the one that set that particular number,  
23    a cost coverage of 146.2, is it surprising to you the  
24    number would be repeated in the text a couple of  
25    times, as the points are being elucidated?

1           A     Mr. Olsen, you pointed out that Mr.  
2 Mitchell's -- that page 58 is the conclusion of a  
3 discussion by Mr. Mitchell that begins on page 56.  
4 And if you want to look at page 56, his first  
5 statement is, he poses the problem, "with any notion  
6 of fairness when applied to ECR suggests in any direct  
7 way that its cost coverage should be higher than the  
8 146.2 percent," and then he also gives the markup  
9 index.

10          Q     And when he says "fairness," would you think  
11 that's criterion one? Isn't that what fairness is,  
12 when you're talking about fairness, it's criterion  
13 one?

14          A     Fairness and equity is one of the criteria  
15 of -- one of the nine criteria. And in some sense, it  
16 applies -- from the Postal Service's perspective, it  
17 applies to -- in some sort of a summary sense that the  
18 idea -- and I find it difficult to understand that if  
19 Mr. Mitchell is saying that if fairness and equity --  
20 if he finds it hard to conclude that fairness and  
21 equity would lead to a cost coverage higher than 146.2  
22 percent, to my mind and my interpretation is that a  
23 cost coverage that is higher than this would ipso  
24 facto be unfair and inequitable.

25          Q     I think now I understand your point, because



1     you're looking at fairness and equity as being the  
2     summa touchstone; that if somebody says something is  
3     fair and equitable, you don't think about that as a  
4     discrete analysis under criterion one, but some over  
5     arching meaning that's beyond criterion one, which is  
6     the way we usually use it.

7           A     No, no.

8           Q     Isn't that the problem?

9           A     No, that is not my interpretation.

10          Q     Okay. I thought we might have had agreement  
11     for a second.

12          A     No. What I'm saying -- in fact, I made two  
13     statements. But the latter is that if Mr. Mitchell is  
14     arguing that fairness and equity requires a cost  
15     coverage not to exceed 142.6 percent, then if it  
16     exceeds that, if was, by itself, not fair and  
17     equitable. And presumably, if it were not fair and  
18     equitable, I think there is an implication there that  
19     the Commission would have difficulty approving a cost  
20     coverage for ECR that was of a higher than 146.2,  
21     because it would be inherently unfair and inequitable.

22          Q     And criterion one trumps all the other  
23     criterion?

24          A     That is not my testimony.

25          Q     Okay. Let's go to page one of your

1 testimony and talk about a slightly different issue.  
2 Beginning on line five, you say, "Mr. Mitchell's  
3 testimony contends that a failure to establish a  
4 formal causal link between the Postal Service's escrow  
5 obligation and the test year deficit establishes some  
6 kind of legal impediment that prevents the Commission  
7 from recommending it;" correct?

8 A I believe that you've read it correctly.

9 Q Now, my first question is, what is "it" at  
10 the end of the sentence? What does that refer back  
11 to? What is it the Commission is prevented from  
12 recommending, according to Mr. Mitchell's testimony?

13 A That would be the Postal Service's rate and  
14 fee proposals. I definitely conceded that that is  
15 unclear, as written.

16 Q So, there's no antecedent to the word "it"  
17 anywhere above that in your testimony?

18 A I don't see one, no.

19 Q Okay. Now, let's go to the word "legal  
20 impediment." Now, you mention those at the beginning  
21 and I asked you -- I guess I didn't ask you this, but  
22 I'll ask you now, can you point to anywhere at all in  
23 Mr. Mitchell's testimony that says there's a legal  
24 impediment, any words like that, and it says that that  
25 impediment -- let's correlate that to what you say

1 here, that impediment is operative when there's no  
2 causation established or no logical causal link  
3 between the escrow obligation and the deficit and if  
4 there is a causal link, then the legal impediment goes  
5 away. Where is that in his testimony?

6 MS. MCKENZIE: Mr. Olsen, you pursued this  
7 line of questioning a number times. Mr. Chairman, Mr.  
8 Olsen has pursued this line of questioning a number of  
9 times. There are no quote marks around "legal  
10 impediment." It's a characterization of Mr.  
11 Mitchell's testimony. I mean, if we're going to go  
12 through and is every word repeated somewhere in Mr.  
13 Mitchell's, I'm afraid we'll be here a long time.

14 MR. OLSON: I didn't mean that as part of  
15 the question.

16 CHAIRMAN OMAS: Proceed, Mr. Olsen.

17 MR. OLSON: Okay.

18 BY MR. OLSON:

19 Q I don't mean that you have to have the word  
20 "legal impediment" in Mr. Mitchell's testimony, just  
21 what is the logical causal link that -- between the  
22 deficit and the escrow obligation that has to be  
23 established to get rid of some impediment?

24 A Could you repeat that question, please?

25 Q Yes. I'm just trying to figure out where in

1 Mr. Mitchell's testimony he contends that failure to -  
2 - for the Postal Service's failure to establish a  
3 formal logical causal link between the escrow  
4 obligation and the deficit creates a legal impediment  
5 that prevents the Commission from recommending their  
6 proposal?

7 A Again, there is no specific quote and  
8 there's no specific place in Mr. Mitchell's testimony  
9 where he comes out and says that in so many words.  
10 But, this was based upon my reading and my  
11 interpretation of what Mr. Mitchell was arguing,  
12 particularly in his -- the first section of his  
13 testimony, pages, I believe, six to nine, where he  
14 goes to great pains to point out that there is no sort  
15 of causal link there. And he goes on in other places  
16 to talk about that the escrow cannot cause a deficit,  
17 because it's illogical; that expenses -- specific  
18 expenses will cause deficits. I find it --

19 Q No, I understand.

20 A No, no, excuse me, I'd like to finish this  
21 point. I find it hard to believe that Mr. Mitchell  
22 would have taken such great pains to make such a  
23 substantial argument merely to make, let's say, a  
24 nuance and fine point in accounting, perhaps. I think  
25 that from what I interpret, the purpose of his making

1     this point is that the Postal Service is not entitled  
2     to come before the Commission and request a rate  
3     increase simply because it is faced with this escrow  
4     obligation, that it has to -- it's only because there  
5     is some deficit, but that the Postal Service cannot  
6     use or cannot make a policy decision that the  
7     impending escrow obligation is sufficient cause for it  
8     to come before the Commission with a rate increase  
9     request, specifically to fund that expense.

10           Q     Could I reasonably summarize that answer by  
11     saying that because of the strength or the length of  
12     the argument that Mr. Mitchell articulated to discuss  
13     the issue of a link between the deficit and the escrow  
14     issue, that you inferred it had -- it couldn't be for  
15     a policy reason, it had to be for a legal impediment  
16     reason? Is that what you said?

17           A     Could you repeat that question?

18           Q     Yes. That when you read his testimony,  
19     because of how long it went to discuss the absence of  
20     a correlation between the deficit and the escrow, that  
21     it could not be a policy argument; it had to be a  
22     legal impediment argument?

23           A     I would say that the length and the -- the  
24     length of the argument and the complexity of the  
25     argument were factors in -- let's say, in leading to

1       that conclusion. But, I wouldn't say that was the  
2       sole reason. It was a judgment based upon looking at  
3       this first section or a couple of sections of the  
4       testimony.

5           Q     Let me ask you to look at page two of your  
6       testimony and lines 11 to 12. I want to consider your  
7       statement that "to reduce ECR's rates in this case  
8       would unfairly shift ECR share of funding, the escrow  
9       burden, to other subclasses." Do you see that?

10          A     I see the statement, yes.

11          Q     Okay. Just as a preliminary matter, I  
12       assume what you meant to say is that to give ECR no  
13       rate increase or a smaller rate increase than proposed  
14       by the Postal Service would shift," you're not talking  
15       about rate decreases necessarily, are you? Your exact  
16       words are "to reduce ECR's rates."

17          A     It would be to reduce it from the proposed  
18       rates.

19          Q     Okay. Now, isn't a fairly basic principle  
20       that if we have a revenue requirement that has to be  
21       met, that giving one mailer a smaller increase means  
22       giving another major mailer a larger increase?

23          A     If the revenue requirement is determined,  
24       then you cannot increase -- you cannot decrease one  
25       set of rates without increasing some other ones.

1           Q     Right. And here, you talk about ECR's share  
2     of funding the escrow burden. That statements seems  
3     to be premised on an assumption on your part that each  
4     subclass has some share of the funding that's assigned  
5     to it. Isn't that right?

6           A     I believe I was using the term "share" as it  
7     has been used by one or more other Postal Service's  
8     witnesses in this case, that when a policy was -- a  
9     decision was made to request a rate increase to fund  
10    the escrow, that it was determined that the across-  
11    the-board increase would be a fair way to share out  
12    the burden of the escrow.

13          Q     So, you're thinking of the across-the-board  
14    approach as giving ECR a share of the burden and  
15    anything that gives ECR a lower rate allows it not to  
16    have to pay its fair share; is that the way you're  
17    thinking of it?

18          A     The across-the-board rate increase was  
19    proposed by the Postal Service as a way to share out  
20    the burden of the escrow. And if one particular  
21    subclass were to be exempted from that, the revenues  
22    needed to fund the escrow would still have to be  
23    collected and it would have to be picked up by other  
24    subclasses, one or more other subclasses.

25          Q     Well, let's just talk about this for -- I've

1 got three more areas to go over with you and then I'm  
2 going to be done. But, I want to have you look at  
3 page three, line three, and you say, "in this docket,  
4 the Postal Service has proposed increases in rates and  
5 fees to meet a congressionally mandated financial  
6 obligation to place funds in escrow during fiscal year  
7 FY2006 and beyond;" correct?

8 A Yes.

9 Q Okay. Can you tell me why it would not be  
10 just as logical for this sentence to say that the  
11 Postal Service has proposed increases in rates and  
12 fees to meet a 2006 deficit?

13 A As I believe several of the Postal Service's  
14 witnesses have testified, starting at the top, from  
15 the Postmaster General, that if it were not for this  
16 escrow, we wouldn't be here today. The Postal Service  
17 would not have come in to request a change in rates.  
18 And the Postmaster General went so far as to say that  
19 if Congress were to relieve -- or to remove this  
20 escrow burden, then the Postal Service would actually  
21 withdraw its request.

22 Now, what I -- in this particular sentence  
23 that you quoted, I attempted to reflect what was a  
24 policy decision on the basis of the Postal Service.  
25 The Board of Governors determined that it was going to



1 -- it knew it had to pay into the escrow starting in  
2 fiscal 2006 and it made a policy decision that it  
3 would request a rate increase to fund that escrow. I  
4 think that my sentence, as it stands, accurately  
5 characterizes the Postal Service's thinking, that it  
6 came before the Commission with a request to fund the  
7 escrow.

8 Q Well, let me go down a step from Mr. Potter,  
9 to Mr. Tayman, and -- I mean, he goes to great pains  
10 in his testimony to develop the fact that there is a  
11 projected deficit for 2006, does he not?

12 MS. MCKENZIE: Objection, Mr. Chairman.  
13 This is getting beyond the scope of Dr. Keefer's  
14 testimony.

15 MR. OLSON: I'll try to work around that,  
16 Mr. Chairman.

17 CHAIRMAN OMAS: I appreciate that, Mr.  
18 Olsen.

19 BY MR. OLSON:

20 Q Since you just said you were speaking about  
21 the Postal Service's policy reasons for filing the  
22 case, I'll ask you just about those. If the Postal  
23 Service had a deficit, but no escrow payment, do you  
24 believe there would have been a rate case filed?

25 MS. MCKENZIE: Objection.

1 MR. OLSON: He just spoke to this issue.

2 THE WITNESS: Okay. Mr. Olsen, the decision  
3 on whether or not to file a rate request is made by  
4 the Board of Governors and not by myself. I don't  
5 know.

6 MR. OLSON: Okay.

7 BY MR. OLSON:

8 Q Now, let's -- I don't want to miss Pandora's  
9 box. Line 16, page 27 --

10 A Page 27?

11 Q Right. And there, you say, "Mr. Mitchell is  
12 inviting the Commission to open a Pandora's box by  
13 adjusting cost coverages and rate relationships, when  
14 the only party to challenge the pricing and rate  
15 design in this case has been ValPak;" correct?

16 A That's what the testimony says.

17 Q Are you saying that the interest of one  
18 intervenor should not be heard by the Commission  
19 unless a wide range of intervenors have interests, as  
20 well, and express them before the Commission?

21 A No.

22 Q Then what are you saying?

23 A What I'm saying is that the Commission  
24 should hear the interests of even a single intervenor,  
25 but it should take into account what some of the

1 potential consequences of giving -- let say, following  
2 the rate proposals of a single intervenor and whether  
3 that might lead to, let's say, a number of other  
4 negative consequences, and that was what the Pandora's  
5 box analogy was designed to describe.

6 Q Are you saying that if the Commission were  
7 to consider any alteration of the coverages that are  
8 being proposed by the Postal Service, that the  
9 Commission is going to find itself facing untold  
10 difficulties that it won't be able to handle, won't be  
11 able to come up with the revenue requirement or come  
12 up with rates? Is that what you're saying?

13 A There are a number of things, potential  
14 outcomes that could happen. I mean, obviously, one is  
15 in order to maintain the revenue requirement, if it  
16 reduces the revenue collected from one subclass, it  
17 will have to increase the revenue from others. And if  
18 it gives, let's say, a rate relief to one particular  
19 subclass, then there is always -- you know, there  
20 certainly is the possibility that the Commission may  
21 have to consider that, in fact, the forbearance that  
22 is being shown by other parties may break down; that  
23 there may be the possibility of other parties, who  
24 have decided that they could live with an across-the-  
25 board increase where everybody sort of shares the pain

1 would then maybe start clamoring for their own levels  
2 of rate relief.

3 Q When you talk about a Pandora's box and the  
4 difficulties of changing coverage for one product or  
5 subclass, are you saying that you have -- reasonably  
6 the Commission has had problems in handling an  
7 assignment like that in the past, that Pandora's box  
8 will open and things will get out of control? It's  
9 the Pandora's box I'm trying to get to. What's coming  
10 out of the box that the Commission can't handle?

11 A Well, frankly, I'm not sure that I could  
12 even enunciate all of the possibilities, but I did  
13 point out the fact that it is no secret that the  
14 Postal Service is trying to settle this case. I have  
15 not seen -- I have not been a party to the settlement  
16 negotiations and I have not seen any settlement  
17 docket. But, my understanding of some settlement  
18 documents in the past have been that they have bailout  
19 clauses. And if the Commission should recommend  
20 something that is significantly different, then other  
21 parties may object and this could lead to problems.

22 Q I guess if it happens after the Commission  
23 issues its opinion recommended decision, it won't be  
24 in this docket.

25 A That would be correct, although I do not

1 know whether parties -- and I'm not trying to make a  
2 prediction here, but some parties may decide to engage  
3 in lawsuits. I don't know.

4 Q Let me just finish up with two sentences  
5 that -- your next two sentences. You said, this is  
6 line 19, "that is not to say that Mr. Mitchell has not  
7 raised important issues," and I think you're talking  
8 about the coverage there, is that correct, or are you  
9 talking about everything?

10 A Well, I believe -- I was talking about  
11 coverage, but not just coverage.

12 Q But ECR coverage was included in what you  
13 were thinking here?

14 A It was encompassed by that.

15 Q Okay. And you said, "I readily acknowledge  
16 that his concerns, as well as those of other mailers,  
17 should be given due consideration in the future."  
18 Isn't this the kind of argument the Postal Service  
19 could make in every case, that not now, later? Is  
20 there some reason why we have to wait to the future,  
21 as opposed to having some -- if some mitigation of ECR  
22 coverage is appropriate, to have it now?

23 A The Postal Service has made a proposal for  
24 an across-the-board increase. The Board of Governors  
25 had good policy reasons to do that. Among them was to

1     try to narrow the issues and encourage settlement and  
2     expedite the rate case, so that the Postal Service  
3     could start collecting revenues from the increased  
4     rates as soon as possible after the beginning of the  
5     new year, new calendar year. All of this was stated  
6     by Postmaster General Potter and other witnesses.

7             The part of the reasoning, then, for the  
8     policy decision, in order to get an expedited -- I  
9     should say an expedited conclusion to this case, the  
10    Postal Service determined that an across-the-board  
11    increase proposal was the best option. What that  
12    means in particular context is that some issues, which  
13    might have merit in a more conventional rate request,  
14    would have to be deferred. The Postal Service --  
15    well, certainly, as Mr. Potter has testified, if we  
16    had not -- we were not required to fund this escrow,  
17    we would not have proposed any changes at all. And so  
18    the issues that Mr. Mitchell brought up, that I was  
19    referring to in this particular segment of my  
20    testimony, would, in fact, be deferred.

21            So, I don't see that there is any  
22    significant reason why they cannot be deferred until  
23    the next case. And Mr. Potter did testify that there  
24    would be another rate case coming, where -- Mr.  
25    Keefer, I appreciate your help and thank you, Mr.

1 Chairman.

2 CHAIRMAN OMAS: Thank you, Mr. Olsen. Is  
3 there any follow-up cross-examination for witness  
4 Keefer?

5 (No response.)

6 CHAIRMAN OMAS: Are there any questions from  
7 the bench?

8 (No response.)

9 CHAIRMAN OMAS: Mr. Keefer, I have a couple  
10 of questions. You work in pricing and classification  
11 and have appeared before this Commission on a number  
12 of occasions. Am I correct that you have testified in  
13 the last three Omnibus rate cases?

14 THE WITNESS: I've testified in the last two  
15 Omnibus rate cases. Let me be more explicit. I've  
16 testified in docket number R2000-1 and docket number  
17 R2001-1. So, counting this one, there's been three.

18 CHAIRMAN OMAS: All right.

19 THE WITNESS: Okay.

20 CHAIRMAN OMAS: In preparing testimony for  
21 these hearings in Omnibus cases at PRSC, is that an  
22 important part of your responsibilities?

23 THE WITNESS: Preparing testimony?

24 CHAIRMAN OMAS: Yes.

25 THE WITNESS: Yes.

1           CHAIRMAN OMAS: How long did your office  
2 work on preparing for this case before the request was  
3 filed in April?

4           THE WITNESS: You mean specifically on  
5 testimonies or on the testimony, plus other supportive  
6 materials?

7           CHAIRMAN OMAS: I would say testimony and  
8 other supporting material.

9           THE WITNESS: Are you referring solely --  
10 well, perhaps, I can --

11          CHAIRMAN OMAS: I'm talking solely for  
12 preparing for this case.

13          THE WITNESS: Right, right. What I wanted  
14 to clarify is you've mentioned the Office of Pricing  
15 and Classification. The work in the Office of Pricing  
16 and Classification, in preparation for this case, I  
17 believe it began in small -- in part, it began perhaps  
18 as early as a year ago with discussion of issues that  
19 might be included in the --

20          CHAIRMAN OMAS: You're talking a year ago,  
21 April 2004?

22          THE WITNESS: I meant a year ago from today.

23          CHAIRMAN OMAS: Okay.

24          THE WITNESS: It began more in earnest  
25 during the fall of 2004.



1           CHAIRMAN OMAS: Is your office currently  
2 working on preparing for the next Omnibus case?

3           THE WITNESS: In general, the Postal Service  
4 begins work on its rate case by, as I mentioned  
5 before, discussing issues and things which might be  
6 part of a case.

7           CHAIRMAN OMAS: Is that a yes?

8           THE WITNESS: Have we begun -- we have begun  
9 discussing issues, yes.

10          CHAIRMAN OMAS: You have?

11          THE WITNESS: Yes.

12          CHAIRMAN OMAS: And when will the deadline  
13 be when you have to be ready to present, say, a case  
14 or parts of a case to upper management?

15          THE WITNESS: I don't know the answer to  
16 that.

17          CHAIRMAN OMAS: I thank you. Ms. McKenzie,  
18 would you like some time with your witness?

19          MS. MCKENZIE: Yes, Mr. Chairman, about 10  
20 minutes, please.

21          CHAIRMAN OMAS: About 10 minutes, all right.  
22 Why don't we -- say, we come back at 5:00. Thank you.

23          (Whereupon, a brief recess was taken.)

24          CHAIRMAN OMAS: Take your seats. Ms.  
25 McKenzie?

1 MS. MCKENZIE: Good news, Mr. Chairman, the  
2 Postal Service have no redirect.

3 CHAIRMAN OMAS: I appreciate that. The  
4 Commissioners appreciate that. Thank you. Mr.  
5 Keefer, that completes your testimony here today. We  
6 appreciate your appearance and your contribution to  
7 our record. You are now excused, and thank you.

8 (Witness excused.)

9 CHAIRMAN OMAS: Well, ladies and gentlemen,  
10 that concludes today's hearing and this hearing is now  
11 adjourned. Thank you, very much.

12 (Whereupon, at 4:59 p.m., the hearing in the  
13 above-entitled matter was concluded.)

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